EXPORT - LED GROWTH : NIC PERFORMANCE AND THE TURKISH EXPERIENCE

A THESIS PRESENTED BY FATMA COŞAR

TO

TO THE INSTITUTE OF

ECONOMICS AND SOCIAL SCIENCES

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR

THE DEGREE OF MASTER OF ARTS

IN THE SUBJECT OF INTERNATIONAL RELATIONS

BILKENT UNIVERSITY

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Fatma Coşar

I certify that I have read this thesis and in my opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations.

G. Tuna

Asst.Prof.Dr. Gülgün Tuna

I certify that I have read this thesis and in my opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations.

Nur Bilge Criss

Dr. Nur Bilge Criss

I certify that I have read this thesis and in my opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations.

Dr. Serdar Güner

Approved by the Institute of Economics and Social Sciences.

A. L. Karaosmanoğlu

CONTENTS

INTRODUCTION

In the 1960s and 1970s, East Asia became an economically dynamic part of the Third World. Small countries with little in the way of domestic markets or natural resources, such as Taiwan, South Korea, Hong Kong, and Singapore, experienced rapid economic growth with improved quality of life indicators based on export-oriented production of manufactured goods under the Export Promotion (EP) trade strategy.

When these four countries prospered beyond expectations, questions arose in the field of international political economy : What were the specific conditions that made possible the success of an EP strategy in these "newly industrializing countries (NICs)"? Do other developing countries have a similar chance of success with the EP model ?

During the 1980s Turkey employed a similar strategy of trade liberalization with economic reforms of stabilization. However, although high export levels and economic growth rates were acquired, the implementation of the EP strategy in Turkey failed to control inflation and unemployment and to correct the unequitable distribution of income.

The relatively less impressive success of the Turkish economy under the EP strategy raises questions such as : What are the reasons for the differences in the performances of Turkey and the NICs ?

This comparative study is an attempt to adress these questions. Part I is designed as a brief review of the literature on the EP strategy in an effort to provide a theoretical basis for the topic. Part II, "Export Promotion in practice : the NIC performance" assesses the success of the NICs under the EP strategy by examining the implementation of the strategy in NICs, together with the economic background, government policies and the statistical measures of the performances of the four countries in question. This part also attempts to provide an explanation for the success of NICs through an analysis of factors unique to these countries and examines the possible consequences of the adoption of EP by other developing countries.

Part III analyzes the implementation of the same strategy in Turkey. To better understand the roots of Turkish foreign trade policies, Part III provides a brief overview of the economic and political background of the Turkish economic structure and also includes an extensive description of the reforms of the 1980s. After an examination of the indicators of economic performance in Turkey under these reforms, Part III also includes an attempt to explain the reasons for the relatively lower success rates of Turkey under the EP strategy in comparison with the NICs.

The conclusion of the study draws the results of this comparative analysis and discusses possible prospects for the Turkish economy.

I.EXPORT PROMOTION IN THEORY

In the 1950s many developing countries, especially Latin American countries such as Argentina, Uruguay, and others which became part of the world international trade as primary product producers-exporters, implemented inward-oriented trade policies with high trade barriers, tariffs and regulations, trying to foster industrialization through import-substitution in an effort to raise growth rates and living standards, and to reduce "dependence" on the international division of labor.

These efforts and policies were mostly based on the rejection of the doctrine of comparative advantage and were also associated with the policy prescription that developing countries should specialize in the production and export of primary commodities in exchange of manufactures.

However, in the 1960s, after a period of experimentation with inward-oriented trade policies, most of these countries switched to export promotion (EP) and displayed varying rates of economic growth and success. Although, in the late 20th century export promotion has itself become a major strategy used to acquire foreign exchange (for imports) and to promote economic growth, it is beneficial to examine first the Liberal theory of international trade as the basis of the export promotion strategy and then analyze export promotion itself.

The Liberal international trade theory rests ultimately upon the belief that economic specialization produces gains in productive efficiency and national income. In The Wealth of Nations (1776) Adam Smith argued that the key to national wealth and power was the division of labor dependent upon the scale of the market.

Building on Smith's ideas, Ricardo established the law of comparative advantage and demonstrated that international trade is mutually beneficial. According to Ricardo, countries will tend to specialize in those commodities whose costs are comparatively lowest. Even though a nation may have an absolute advantage in the production of every good, specialization in those goods with the lowest comparative costs, leaving the production of other goods to other countries, enables all to gain more from trade.

The neoclassical reformulation of the liberal theory has become known as the Heckscher-Ohlin-Samuelson (H-O) model of international trade and was the standard liberal position of the 1980s. The theory maintains that a nation's comparative advantage is determined by the relative abundance and most profitable combination of its several factors of production, such as capital, labor, resources, management, and technology.

The above mentioned formulations on international trade from Ricardo to H-O represent the classical and neoclassical theories and examine a world economy of the past. Unlike these, newer theories attempt to account for a world in which capital is highly mobile and products are exchanged at every step of the process, from technological knowledge to the final product itself (Gilpin 1987, 177).

In this new economic environment the rise of Japan and the NICs has led to an important change in the status of the concept of comparative advantage. This fundamental principle of liberal trade theory has lost some of its relevance and predictive power (Corden 1984, a). Thus, classical liberalism's explanation of trade patterns, based on the intensity and abundance of the factors of production, is of declining relevance to a world of intra-industry trade and rapid technological diffusion. Now comparative advantage is regarded as a dynamic product of corporate and state policies (Gilpin 1987, 178).

PROTECTIONISM

While examining liberal trade policy as a basis for export promotion, economic protectionism and its main arguments against free trade should also be analyzed in an effort to understand why most countries adopt protectionist policies and to acknowledge the limitations of the liberal trade theory.

Liberals believe that protectionism is a test to see whether a nation really does have an inherent comparative advantage in a particular industry. They regard protectionism as a necessary but temporary venture and a stepping stone to a system of free trade (Gilpin 1987, 185).

Economic nationalists, on the other hand, tend to regard protectionism as an end itself. Their foremost objective, in the short run, is state building and industrial power. The fundamental purpose of a tariff is to establish particular industries.

a) The Infant Industry Argument:

According to this argument, when a difference exists between marginal social and marginal private costs, free trade may not allow a country's true comparative advantage situation to develop. In such a situation, trade, according to this view, should be temporarily protected during its initial high cost period, until a stable pattern of international specialization is established (Tuna 1988, 9).

The basis for the infant industry argument is the lowering of production costs through an educative process. To be able to compete with foreign producers on equal terms, the infant industry should grow in size and become mature through a process of "learning by doing." Only through this way can an infant industry lower its costs and overcome the disadvantages of being an "infant."

Against this argument free trade advocates claim that when all infant industries receive protection, none of them receive a special benefit and thus, a devaluation or deflation is more preferable to protection in the form of tariffs and subsidies (Tuna 1988, 10). According to advocates of the export promotion policy, there exists no justifiable point in the infant industry argument that indicates that import substitution, or more generally protection, is preferable to an unbiased or export-oriented strategy for trade and growth (Krueger 1984, 148).

b) The Optimum Tariff Argument:

In order to improve their terms of trade, Less Developed Countries (LDCs) are inclined to use tariff restrictions. However, for most LDCs such a policy argument tends to be irrelevant since very few of them possess monopoly or monopsony power to maintain income transfer through an improvement of terms of trade.

c) Balance of Payments Argument:

In an effort to reduce their balance of payments deficit, both Developed Countries (DCs) and LDCs use tariffs from time to time. Such a policy may seem to be optimal in the short run, however, in general, a reduction in the expenditure or a devaluation is considered to be more preferable.

d) Distortions In the Factor Markets :

In the presence of large unskilled unemployed labor in most LDCs with high industry wages and low agricultural wages, a tariff on importable industry is sometimes advocated as an offset against high cost of labor. However, given the imperfections of the labor market in the LDCs, a tariff leads to an inefficient resource allocation and can never be an optimal policy. Subsidies should be preferred instead of tariffs (Tuna 1988, 11).

EXPORT PROMOTION :

Export Promotion (EP) or Export-Led Growth model emphasizes the importance of an outward-oriented trade strategy for the economic growth of developing countries. A trade policy based on Export Promotion is the one in which there is no bias of the incentive structure toward favoring production of import substitutes. Under Export Promotion some industries may be encouraged by special incentives. However, those incentives would be at least as great for the production of exports than for production for sale in domestic markets. An export-oriented policy entails less of a departure from free trade and equalized incentives than the Import Substitution strategy (Krueger 1984, 140).

According to this model, export earnings enable developing countries to import capital goods and the intermediate inputs necessary for investment and production at full potential. Exports have been a significant factor in overcoming external debt problems and also in achieving high levels of growth. Postwar experience has shown that countries that attained high export levels have also achieved high economic growth rates. In addition, growth in export earnings enabled some LDCs with external debt problems to make orderly payments on their debt from 1973 to 1983 (Cline 1983, 120).

The EP strategy can also be considered as the 1970s version of the "engine of growth" approach. This approach differs from the orthodox-free-trade argument in that, it emphasizes resource allocation and structural adjustment, and hence, considers short- as well as long-term problems of development.

The supply effects expected from the liberalization of the external sector of the economy stemmed from the belief that export promotion would lead to an improvement in the balance of payments that, in turn, would favorably affect the imports of capital goods, raw materials, and other inputs, expanding the supply capacity of the economy (Khan 1987, 48).

CHARACTERISTICS OF AN EXPORT PROMOTION STRATEGY :

In an Export Promotion strategy exporters (also importers) are permitted ready access to intermediate and capital goods. Under such a strategy, exchange rates are fairly realistic and there exist equal incentives to sell abroad as well as to sell domestically, with the consequence that most firms base their capacity on expected domestic and foreign sales.

Under EP most incentives are structured in such a way that they apply to all exporters and are based on either the dollar value of export sales or the value added in export sales. This results in a uniformity in the incentives confronting producers of different products, at least in the export markets.

In addition, export oriented policies generally avoid the use of tariffs and the quantitative restrictions in an effort to ease exporters' access to international market at international prices.

According to Krueger, contrary to the inherent view in the Import Substitution strategy, becoming a part of the international market through free trade reduces dependence on the international economy. Under Export Promotion strategy dependence on the international economy is reduced since foreign exchange earnings necessary for the purchase of imported inputs and capital goods grow rapidly, markets become increasingly diversified and the economy more flexible (Krueger 1984, 142).

An export-oriented strategy permits a developing country to establish economically efficient sizes of plants and to maintain long production runs, regardless of the size of its domestic market. Thus, a developing country can overcome the limitations of a small domestic market, at least for traded goods under an EP strategy. Moreover, in such an economy specialized products that are not produced domestically can be obtained at internationally competitive prices.

Usually, unskilled labor constitutes the basis of the resource endowment of developing countries. It is widely recognized that the rate of human and physical formation together with the abundant unskilled labor forms a constraint on expanding the industrial sector in most LDCs.

According to Nas, when factor proportions differ significantly among industrial sectors, Export Promotion strategy leads to a more rapid growth of value added and employment of unskilled labor in industry for the same rate of human and capital formation under other strategies. Especially when there exists a wide range of factor intensities for industrial processes, countries whose economies are outward-oriented (toward international market) will experience fairly rapid expansion of the relatively unskilled-labor-using industries (Nas 1988, 30).

Another characteristic of the Export Promotion strategy is that, under such a liberal trade regime, exporters have access to international markets for their intermediate inputs. They are able to reduce production costs, since their freedom of choice under the EP strategy permits them access to the cheapest source. Thus, exporters have the opportunity to consider quality, delivery date, reliability and other advantages while purchasing intermediate goods.

Under the Export Promotion strategy the economic behavior of businessmen, investors, entrepreneurs and engineers also follow a different path, due to the competitive environment. In Import Substitution, the absence of competition probably reduces the concern of entrepreneurs about economic efficiency. High-cost firms lose their market share and low-cost firms expand more slowly. Low-cost firms can expand at a desired rate unconstrained by raw material availability or the price elasticity of domestic demand for the firm's product (Lee 1992, 190).

Factors To Be Considered Under Export Promotion:

The economic and trade policies that countries follow usually reflect themselves in the export performance of those countries. The policies of high protection and the overvaluation of exchange rates followed by many developing countries in the 1950s and 1960s caused poor export performance for many developing countries.

Therefore, the trend has shifted to outward-oriented trade policies based on EP strategy instead of placing emphasis on IS. However, according to some analysts, while adopting an Export Promotion policy, certain factors should be taken into consideration in order to reach high export growth levels and also to benefit from the efficiency-stimulating influence of international competition.

According to Meier, if the export sector is to be a propelling force in development, it should not remain separated from the rest of the economy ; instead it should be an "integrated sector." An integrated process should be established, diffusing stimuli from the export sector and creating responses elsewhere in the economy (Meier 1989, 389). Hence, in the "integrative-process" different export commodities should provide different stimuli according to the technological characteristics of their production.

In other words, the developments and the production in the export sector should have linkage effects which also benefit the other sectors in the economy. For example, more favorable linkages may stem from exports that require skilled labor than from those using unskilled labor through the movement of educated, skilled workers to other sectors (Meier 1989, 390).

Apart from the linkages that originate from the export sector, under EP the nature of the production of the export commodity also constitutes an influence on the overall economy by determining the distribution of income and in turn , the pattern of local demand and employment. The use of different factor combinations affect the relative shares of profit, wages, interests, and rent according to the labor or capital intensity of the export production and the nature of its organization.

However, for the Export Promotion strategy to be effective in stimulating the growth of the economy, certain conditions such as ; a developed infrastructure for the economy, well established market institutions, extensive human resources, limited price distortions that affect resource allocations, and a capacity to bear risks are necessary (Meier 1989, 392).

Policy Effects :

The commitment to an export-oriented development strategy implies a fairly liberal trade regime which would prevent paperwork, delays, bureaucratic regulation, and other costs that can arise under more protectionist regimes.

Gilpin points out that the most important lesson to be drawn from Japan and the NICs (successful employers of the Export Promotion policy as a trade strategy) relates to the changing conception of comparative advantage. These countries have demonstrated that comparative advantage in a macro sense can be created through appropriate national policies that facilitate the accumulation of the factors of production (Gilpin 1987, 214).

The trade policy of a country, containing restrictions/incentives, regulations, discriminations, and so on, greatly influences the trade performance, industrial growth and the overall success of the economy.

The government policy instruments that seek to regulate and control through negative means are less likely to achieve the intended results than those that create incentives for individuals to carry out desired courses of activity.

For example, if exchange rate is permitted to become overvalued, lagging exports are more visible under Export Promotion than are the rising premiums by Import Substitution. Similarly, under highly restrictive quantitative restrictions, the reward for evading them is substantial and the enforcement is possible only with detailed scrunity of all incoming goods.

According to Krueger, in Export Promotion unrealistic exchange rates can be maintained only if export subsidies continue to make exporting profitable . However, when overvaluation of the currency increases, the cost of subsidies also grows and these costs provide feedback and incentives for officials to support moves toward a realistic exchange-rate (Krueger 1984, 151).

By its nature, an Export Promotion policy rewards exporters and is nondiscriminatory among exportables. Moreover, under such a strategy misrepresentation of performance is smaller since the surrender of foreign exchange proceeds is sufficient proof of exports. In any case, a fairly realistic exchange rate under Export Promotion provides little incentive for misrepresenting performance.

On the other hand, an important aspect of the EP strategy is the realization that it is a policy that requires long-term perspective which forsees the elimination of barriers on all present and future goods.

The implication of this requirement is that a long-term political commitment is needed for the success of EP strategy. Here, the dilemma is that the probable adverse effects of liberalization on employment and income distribution under the EP strategy in the short-run may render it politically unacceptable and may lead to an "on and off" approach to liberalization and hence to its failure (Calvo 1987, 15).

Thus, if implemented with a long-term perspective and total commitment, the EP strategy, with its positive means of trade regulation and incentives may lead to rapid economic growth through increased volume of exports. The following chapters include descriptions of the NIC and Turkish performance under the EP strategy in an effort to provide an insight on the reasons for the difference in the results of the strategy.

II. EXPORT PROMOTION IN PRACTICE : THE NIC PERFORMANCE

In 1973 a dozen countries accounted for 84 % of the exports of manufactured goods from developing countries : Argentina, Brazil, Chile, Colombia, Hong Kong, Singapore, Taiwan, and Yugoslavia. By 1976 developing countries that exported manufactures on a global scale had narrowed down to South Korea, Hong Kong, Taiwan, and Singapore from East Asia, India from South Asia and Brazil, Mexico and Argentina from Latin America. Together these eight countries accounted for over three quarters of the manufactured exports from the developing world in 1976 (Turner 1982, 10).

The East Asian NICs have continued to be the most dynamic exporters of manufactures and they are the largest in volume. The Export Promotion (EP) strategy and export-led growth, through making the best use of comparative advantage (based on skilled labor) has become the hallmark of the four East Asian NICs and they are of the greatest interest in understanding the NIC phenomenon and how EP leads to economic success in certain countries.

After providing the background information and statistical data on these countries this chapter will examine the implementation of the EP strategy in four East Asian NICs and will question the reasons for their success, through questions such as: Why were they able to export large volumes of manufactured goods and achieve high growth rates under the EP strategy? Which factors inherent in these countries' culture, political and social environment and in their implementation of the EP strategy have led to higher economic growth when compared with other LDCs that used the same strategy?

INDICATORS OF SUCCESS : THE STATISTICS

In 1963, Pacific Area developing countries had relatively low income levels. Apart from Hong Kong and Singapore they had lower per capita incomes than many of the Latin American countries. The situation changed dramatically in the following 25 years. By 1988, all four of the East Asian NICs surpassed the per capita incomes of every Latin American country. During the 1963- 1988 period, the per capita incomes of the four East Asian NICs increased between four and a half and six times (Balassa 1991, 1). [See Table 1.1 for data and explanation]

Exports

The East Asian NICs attained high rates of economic growth in an open economy as shown by their high export-GDP ratios [See Table 1.2]. In South Korea and Taiwan, the export-GDP ratio increased greatly between 1963 and 1987, indicating the leading role of exports in the growth process. This was also the case in Hong Kong and Singapore which already had high export-GDP ratios at the beginning of the period.

Table 1.1 **GDP per capita (US$)**

	At purchasing power parities in 1980 prices					At exchange rates
	1963	1973	1981	1988	1988/1963	1988
Hong Kong	2 247	4 552	7 751	11 952	5.32	8 249
S.Korea	747	1 553	2 457	4 094	5.48	2 849
Singapore	1 777	3 838	6 308	11 693	6.58	7 623
Taiwan	980	1 976	3 028	4 607	4.70	4 804
Argentina	2 949	4 157	3 935	3 474	1.18	2 563
Brazil	1 400	2 338	3 252	3 424	2.45	2 305
Chile	3 231	3 502	4 443	3 933	1.22	1 492
Mexico	2 312	3 403	4 576	3 649	1.58	1 749
Indonesia	463	706	1 155	1 348	2.91	409
Malaysia	1 233	2 146	3 281	3 643	2.95	1 217
Phillipines	965	1 209	1 565	1 460	1.51	603
Thailand	537	761	1 096	1 627	3.03	887
Colombia	1 364	2 010	2 582	2 844	2.09	1 217
Jamaica	1 554	2 455	1 873	1 797	1.16	1 189
Peru	1 973	2 362	2 494	2 102	1.07	2 178
Venezuela	6 123	5 735	4 194	3 814	0.62	2 716

Source : World Bank , World Development Report, 1989.

Explanation : Table 1.1 provides the data for the benchmark years of the 1963-73 period of the world economic boom, the 1973-81 period of two oil shocks, and the 1981-88 period of the debt crisis.

Table 1.2 **Export and Import shares**

	Export/GDP ratio				Import/GDP ratio			
	1963	1973	1981	1987	1963	1973	1981	1987
Hong Kong	N A	66.7	77.9	104.1	NA	74.4	83.9	104.1
S.Korea	2.3	23.2	30.8	39.0	14.6	31.2	37.9	33.8
Singapore	124.5	88.0	151.0	143.7	153.4	123.5	198.5	163.3
Taiwan	15.3	42.1	47.6	56.6	16.7	35.6	44.7	36.5

Sources : GDP and exchange rate data are from the International Monetary Fund (IMF), International Financial Statistics.

Export expansion in the NICs involved an increasing shift towards manufactured exports. In Taiwan, the share of manufactured goods in total exports rose from 38 % in 1963 to 91 % in 1987 ; in South Korea, the corresponding figures were 45 % and 92 % [see Table 1.3]. Smaller changes occurred in Hong Kong, which already had a 92 % manufactured export share in 1963, and in Singapore, where entrepot trade in primary products was of importance (Balassa 1991, 6).

Data on manufactured exports shares are affected by the availability of natural resources, especially oil. Per capita manufactured exports provides an indication of a country's success in these products. Table 1.4 shows rapid expansion of manufactured exports in the NICs. In 1963, these were negligible in South Korea and Taiwan but reached $ 1035 per head and $ 2457 per head for the latter in 1987. The rate of expansion for Hong Kong and Singapore which started from a higher base was smaller.

Savings and Investment

All East Asian NICs increased their domestic savings in the 1973-81 period. These increases were smaller and declined in others in the same period. At the same time NICs maintained higher levels of investment efficiency which is measured (however imperfectly by incremental capital-output ratios (ICORs) [see Table 1.5].

Table 1.3 **Commodity Composition of Exports (percent)**

	Fuels	Nonfuel primary	Manufactures	Other	Total
			1963		
Hong Kong	0.0	7.8	91.7	0.5	100.0
S.Korea	3.0	51.8	45.1	0.2	100.0
Singapore	16.7	52.3	27.8	3.3	100.0
Taiwan	0.9	61.0	38.0	0.0	100.0
			1973		
Hong Kong	NA	3.3	96.5	0.2	100.0
S.Korea	1.1	14.7	84.0	0.2	100.0
Singapore	19.8	33.8	44.3	2.1	100.0
Taiwan	0.3	16.0	83.6	0.1	100.0
			1981		
Hong Kong	0.1	3.0	96.5	0.4	100.0
S.Korea	0.7	8.7	90.0	0.5	100.0
Singapore	27.3	16.8	48.2	7.7	100.0
Taiwan	1.9	9.2	88.7	0.1	100.0
			1987		
Hong Kong	0.3	2.9	95.6	1.3	100.0
S.Korea	1.5	6.1	92.4	0.0	100.0
Singapore	15.6	12.6	66.1	5.5	100.0
Taiwan	0.8	7.5	91.6	0.2	100.0

Souces : UN, Commodity Trade Statistics, various issues.

Table 1.4

Per capita exports of manufactured goods (US$, current)

	1963	1973	1981	1985	1986	1987
Hong Kong	179.7	866.9	2664.7	2891.9	3414.6	4273.1
S.Korea	1.5	79.2	492.8	673.4	767.3	1035.3
Singapore	175.0	730.0	4139.0	4563.7	5136.2	7243.0
Taiwan	10.8	237.7	1110.8	1444.9	1848.5	2456.8

Sources : UN, COMTRADE data base.

Table 1.5

GDP growth rates, domestic savings ratios, and the ICOR

Country	GDP growth rate	Domestic saving ratio	ICOR
		1963-73	
Hong Kong	8.9	24.3	3.6
S.Korea	9.3	13.0	2.1
Singapore	10.3	16.5	3.1
Taiwan	11.1	24.4	1.9
		1973-81	
Hong Kong	9.1	29.0	3.4
S.Korea	7.8	23.6	4.2
Singapore	7.8	32.8	5.0
Taiwan	8.0	32.8	3.7
		1981-87	
Hong Kong	7.2	28.3	4.0
S.Korea	8.9	29.8	3.5
Singapore	5.3	42.0	8.4
Taiwan	7.6	33.7	2.9

Source : World Bank, World Development Report, 1987.

Social Indicators

Data on social indicators should be used complementary to the information on economic growth rates to view the overall success of a country under a specific strategy.

a. **Employment** :

Data on employment are scarce. But Table 1.6 shows that manufacturing employment increased approximately fivefold in South Korea and Taiwan between 1963 and 1986, leading to a decline in the unemployment rate by approximately one half (International Labor Office, Yearbook of Labor Statistics).

By 1986 the rate of unemployment was 6.5 % in Singapore, 2.8 % in Hong Kong, 3.8 % in South Korea and 2.7 % in Taiwan.

b. **Health** :

Between 1965-87, life expectancy among NICs increased mostly in Hong Kong and South Korea. By 1987 the life expectancy was highest in Hong Kong (76 years), followed by Singapore and Taiwan (73 years). Infant mortality rates were most favorable in Taiwan (7/1000), followed by Hong Kong (8/1000) and Singapore (9/1000) having declined by two thirds during the preceding two decades. On the other hand, differences in the number of people per physician are considerable among the NICs [see Table 1.7] (World Bank Development Report 1989)

c. **Education** :

Education and skill level of the population are

Table 1.6

Employment and Unemployment

	Index of manufacturing employment (1975=100)			
	1963	1973	1981	1986
Hong Kong	NA	85.8	133.4	135.5
S.Korea	28.6	80.5	130.2	181.0
Singapore	NA	87.1	155.0	133.0
Taiwan	36.3	93.5	141.4	172.2

	Unemployment rate (nonagricultural employment)			
	1963	1973	1981	1986
Hong Kong	NA	NA	4.6	2.8
S.Korea	8.1	4.0	4.5	3.8
Singapore	NA	4.5	2.9	6.5
Taiwan	4.3	1.3	1.4	2.7

Source : International Labor Office, Yearbook of Labor Statistics, various issues important determinants of the success of a population in manufacturing and industrialization. The literacy rate and secondary school enrollment thus is of importance for training of technical and highly skilled labor. By 1986, the secondary school enrollment rate in South Korea was 95 % , in Hong Kong 69 % , in Singapore 71 % and in Taiwan 88 % [for secondary school enrollment rates and literacy rates see Table 1.8].

International Trade Indicators :

Superior economic performance of the NICs is also apparent in their trends of exports and imports. Between 1963 and 1988, the share of the Pacific Area developing countries in the total exports of the LDCs rose from 11.8 % to 41.8 % (IMF, Direction of Trade Statistics). The share of imports of this group experienced a decline during the same period from 26.7 % to 15.4 % .

Within the Pacific total, the NICs had a large expansion in their share of 8.1 % in world exports and 7.3 % in world imports by 1988 compared with an export share of 1.6 % and import share of 2.2 % in 1963 when EP strategy was not implemented [see Table 1.9 and Table 1.10].

According to the data analysis, by 1988 the GNP growth rates of the NICs were as follows : Hong Kong 7.4 % , Singapore 11.0 % , Taiwan 7.3 % , and South Korea 11.3 % .

After examining the data on exports, GDP per capita,

Table 1.7

Health Indicators

	Life expectancy		Infant mortality		Population per physician	
	1965	1987	1965	1987	1965	1984
Hong Kong	66	76	28	8	2 460	1 070
S.Korea	57	69	63	25	2 700	1 170
Singapore	66	73	26	9	1 900	1 310
Taiwan	67	73	24	7	1 819	1 260

Sources : World Bank, World Development Report, 1989.
Taiwanese data also from World Bank sources.

Table 1.8

Educational Indicators

	Literacy rate (percent)		Enrollment in secondary schools (percent)		Enrollment in higher education (percent)	
	1960	1980	1965	1985	1965	1986
Hong Kong	70.4	77.3	29	69	5	13
S.Korea	70.6	87.6	35	95	6	33
Singapore	49.8	82.9	45	71	10	12
Taiwan	72.9	89.7	44	88	7	21

Sources : School enrollment data from World Bank, World Development Report, 1989. Literacy rates from UNESCO, Statistical Yearbook, various issues.

Table 1.9

Country composition of world exports (percent)

	1963	1973	1981	1988
Developed Countries	64.7	76.2	63.8	71.1
- United States	15.0	13.5	12.2	11.6
- Western Europe	39.7	48.3	38.4	44.2
- Japan	3.5	7.0	7.9	9.6
- Canada, Australia, New Zealand	6.5	7.3	5.2	5.7
Developing Countries	22.8	22.6	31.0	24.9
Pacific Countries	2.7	4.9	7.1	10.4
- Hong Kong	0.6	1.0	1.1	2.3
- S.Korea	0.1	0.6	1.1	2.2
- Singapore	0.7	0.7	1.1	1.4
- Taiwan	0.2	0.8	1.2	2.2
- Indonesia	0.4	0.6	1.2	0.7
- Malaysia	NA	0.6	0.6	0.8
- Philippines	0.5	0.4	0.3	0.3
- Thailand	0.3	0.3	0.4	0.6
- China	0.9	0.8	1.1	1.7
Other Developing Countries	19.2	16.9	22.8	12.8
- Other Asia	3.0	0.6	1.0	1.2
- Africa	4.6	4.2	4.0	2.7
- Europe	0.7	0.6	0.8	1.1
- Middle East	3.9	6.3	11.2	3.6
- Latin America	7.0	5.2	5.8	4.2

Sources : International Monetary Fund, Trade Statistics, various issues.

Table 1.10

Percentage of NIC imports in world imports

	1963	1973	1981	1988
Hong Kong	0.8	1.0	1.2	2.2
S.Korea	0.3	0.8	1.3	1.8
Singapore	0.8	1.0	1.4	1.5
Taiwan	0.2	0.7	1.1	1.7
East Asian NICs	2.2	3.5	5.0	7.3

Source : International Monetary Fund, Trade Statistics, various issues.

domestic savings and investment, and social indicators it is apparent that during the period between 1963 and 1988, the NICs have achieved a high economic performance under the EP strategy. How did they manage to reach such high levels of economic performance, not only in income terms, but also in terms of social indicators ? In order to answer this question, the historical, social and political features unique to each of these four NICs should be examined with special emphasis on the policies applied and the way of implementation of the EP strategy.

HONG KONG

Hong Kong has a population of 5.6 million and an area of 1052 km square . Before the Second World War it depended entirely on the entrepot trade. After the Japanese occupation and a further severe shock in mid-1951 when China entered the Korean War and the UN imposed an embargo on trade with China, the uncertainties in the political and economic environment led Hong Kong to undertake new activities in the manufacturing sector (Balassa 1991, 30).

Together with the entrepreneurial and technical skills and the labor force brought with the new arrivals from China, Hong Kong's manufacturing sector began to flourish. The existence of trade ties and the availability of an efficient network of transportation, communication, and banking facilities benefitted Hong Kong's manufacturing sector and it became an international financial center in the latter part of the 1970s.

Under a laissez-faire economy with free trade and free capital movements, the manufacturing activities further developed. But governmental policies also played an important role in providing political stability and economic conditions that have permitted market forces to stimulate late growth of manufacturing production and trade.

Government Policies :

Although Hong Kong's economy traditionally operates under a laissez-faire system, this orientation was a result of a deliberate choice. The government's actions supported the growth of manufacturing industries in the 1960s, the Hong Kong Trade Development Council in 1966, the Hong Kong Productivity Council in 1967, and the Hong Kong Credit Insurance Corporation in 1968 (Turner 1982, 18). The growth in manufactured exports was thus a deliberate national development strategy adopted by both the government and the private sector.

The Hong Kong government owns no manufacturing establishments, it does not subsidize exports, it applies no tariffs or import restrictions, and it does not attempt to influence the manufacturing sector's activities. Firms are established freely with few regulations on their operations. In addition, there exists no minimum wage legislation and while the trade unions are free to operate, their influence has been limited : only 7 % of industrial workers are unionized. Taxes are low, income taxes range from 5 to 25 percent, corporate income taxes are at a total of 16.5 percent. While there exist reduced depreciation allowances for new investment, the government provides physical and social infrastructure for businesses. It has been involved in land reclamation, enlarged ports, built roads and highways. The government has also provided low-rent housing to about two fifths of the population, and subsidized education until 15 years of age (Balassa 1991, 32).

In Hong Kong, international financial transactions are completely free, contributing to the emergence of Hong Kong as a financial center. Restrictions are not imposed on foreign direct investment abroad by Hong Kong. There exists no Central Bank in Hong Kong.

The foundation of the operation of Hong Kong economy is composed of property rights and the contractual rights which are efficiently provided by the legal system of Hong Kong. The Former Attorney General of Hong Kong has noted :

> " It is the predictability and continuity of the economic and financial environment taken together with the commercial and social stability given by strict adherence to the Rule of Law which have been essential elements in creating the climate of success," (cited in Lethbridge 1984, 235).

While creating such an environment, the Hong Kong government thus played upon an important role in four main areas : 1) controlling the monetary policy (largely ineffectual in practice) ; 2) regulating the financial sector (on minimal basis) ; 3) providing basic social services ; 4) establishing industrial and economic advisory boards (Balassa 1991, 32).

Thus, Hong Kong's governmental policies aided greatly in creating a suitable environment for its economic growth and for the success of its EP strategy.

Economic Growth :

Between 1963 and 1987 Hong Kong's per capita income growth averaged 6.3 % . In 1988 it reached $ 8000 [see Tables 1.1 and 2.1]. Growth originated in the manufacturing sector and increasingly in services both of which were oriented towards exports, with exports of goods and services rising over 11 % a year between 1963 and 1987 (World Bank).

Economic growth was also supported by a high rate of investment [see Table 2.2] which rose to 36 % in the 1980s financed largely by domestic savings. Foreign savings assumed importance in the late 1970s and early 1980s when investment activity was at its peak. In the mean time, the rapid rise in exports helped correct the trade deficit of Hong Kong especially after the establishment of a fixed exchange rate in 1985 which gave Hong Kong a competitive edge.

HONG KONG :

Table 2.1

Economic performance indicators of Hong Kong

Growth rates	1963-73	1973-81	1981-7	1963-87
GDP	8.9	9.1	7.2	8.5
Population	2.1	2.6	1.3	2.1
GDP per capita	6.7	6.3	5.8	6.3
Investment	4.1	12.0	2.1	6.1
Manufac. production	-	-	-	-
Agricul. production	-	-	-	-
Exports	11.1	10.5	13.4	11.5
Imports	9.8	11.8	11.7	11.0

Source : World Bank, World Development Report, 1987.

Table 2.2

Savings and investment ratios of Hong Kong (percent of GDP)

	1973	1975	1977	1979
Private savings				
Domestic savings	26.4	25.3	30.3	31.1
Foreign savings	-2.5	-1.0	-2.3	2.9
Domestic investment	24.0	24.2	27.9	34.0

	1981	1983	1985	1987
Private savings				
Domestic savings	30.4	25.1	27.3	30.7
Foreign savings	5.6	2.0	-5.7	-5.4
Domestic investment	36.0	27.1	21.7	25.3

Source : World Bank, World Development Report, 1987.

In the presence of little arable land, resources and a small domestic market Hong Kong has thus made a deliberate choice of implementing the EP strategy and aiding the manufacturing sector for the production of export goods necessary to earn foreign exchange to import their needs.

SINGAPORE

Within an area of 618 km square , Singapore has a population of 2.6 million. After becoming independent in 1959, Singapore joined the Federation of Malaysia in 1963 for two years (Balassa 1991, 73). Before independence, the economy was dominated by entrepot trade. The financial skills, communications and distributional skiils associated with entrepot functions made Singapore alert to the developments in the world economy.

After an initial period of Import Substitution (IS) with high protection, due to the small domestic market's inability to lead to high standards of living under protection, exports were given priority. In contrast to other NICs foreign direct investment played an important role in Singapore's industrial development. Foreign direct investment was encouraged by incentives while domestic capital concentrated on trading and finance.

Government Policies :

After the Second World War, due to a decline in the entrepot trade (importing minerals, lumber, and rubber from Malaysia and Indonesia for re-export after processing), and the consequent rise in unemployment , industrialization became Singapore's primary objective.

According to People's Action Party's (PAP) Manifesto in 1959, Singapore had advantages that could be useful in industrialization, such as : hardworking, resourceful, enterprising people ; favorable geographical position and sea communications ; large amount of capital accumulated by local enterprise and public authotities ; and markets available in the region (People's Action Party, 1958).

After separation from the Malaysian Federation, the government implemented a policy of IS, but in 1965 when Malaysia reimposed tariffs and quotas on Singapore's manufactured goods, Singapore adopted a conscious policy of Export Promotion. Specific measures were taken to liberalize restrictions and duties on imported inputs for export production and to attract foreign investment and technology.

Export subsidies were introduced and tax measures were adopted to favor profits and expenses associated with manufacturing exports. Company tax rates on profits earned from exports, tax on royalties, licences, technical assistance fees were reduced. Tax allowances were provided for the development of markets abroad (Tuna 1989, 32).

To complement the manufacturing sector and to aid in industrialization efforts, the Singapore government established a Technical Education Department in 1968 placing emphasis on technical education and providing overseas training. In 1975, the Export Credit Insurance Corporation was established with 50 % government participation to insure exports against defaults on commercial and political grounds (Chen 1983, 35).

In 1978, the government launched a program termed "Second Industrial Revolution" to increase the relative importance of high technology industries through incentives for investment in Research & Development , with a policy of raising wages, educational, training facilities (Rodan 1985, 40).

Economic Growth :

With the contribution of the policies applied, under the EP strategy, Singapore experienced rapid economic growth. Between 1963 and 1988 per capita income rose by a factor of 6.65 reaching $ 7623 a year [see Table 1.1]. Later on, however there was a slowdown in economic growth over time [see Table 3.1].

Economic growth was concentrated in the manufacturing and financial sectors. The share of manufacturing in GDP rose from 12.6 % in 1963 to 28.6 % in 1987. Exports rose parallel to the increase in the share of manufacturing in GDP.

Investment :

In Singapore investment was supported by the government, public institutions, and directly by foreign sources [see Table 3.2].

SINGAPORE

Table 3.1

Economic performance indicators of Singapore (percent)

Growth rates	1963-73	1973-81	1981-7	1963-87
GDP	10.3	7.8	5.3	8.2
Population	2.0	1.4	1.1	1.6
GDP per capita	8.1	6.4	4.1	6.5
Investment	15.6	8.7	3.4	10.1
Manufac.production	15.8	8.3	3.8	10.2
Agricul.production	4.3	0.8	-5.1	0.7
Exports				
Imports				

Source : World Bank, World Development Report, 1988.

Table : 3.2

Savings and investment ratios of Singapore (percent of GDP)

	1973	1975	1977	1979
Private savings	28.8	28.4	31.8	33.7
Domestic savings	28.7	29.3	32.9	36.0
Foreign savings	10.0	10.5	2.6	7.0
Domestic investment	38.7	39.8	35.4	42.9
	1981	**1983**	**1985**	**1987**
Private savings	40.4	43.8	38.2	-
Domestic savings	41.1	45.6	40.3	40.1
Foreign savings	5.6	1.8	2.4	-0.4
Domestic investment	46.7	47.4	42.8	39.7

Source : World Bank, World Development Report, 1988.

The Development Bank of Singapore was established with 49 % government participation in order to finance development . In addition, by 1984, the public sector accounted for 33.4 % of gross capital formation and generated 69 % of gross national savings (cited in Krause 1987, 110).

Beside governmental efforts to raise investment, foreign direct investment also had a major role in making funds available for industrialization. The promotion of direct foreign investment was initially undertaken to increase employment which was 46,000 in 1958 (Balassa 1991, 58). The major policy instrument designed to attract foreign direct investment was tax incentives. The provision of industrial finance and the establishment of industrial estates further attracted foreign investment. Most importantly, there exist in Singapore free repatriation of profits, dividends and capital and no disincentives for foreign direct investment which is concentrated in the manufacturing sector.

Thus, with the support of governmental policies and domestic and foreign investment Singapore made a successful transition into industrialization, increased its volume of manufactured exports, and with the outward-oriented Export Promotion strategy Singapore achieved high growth rates.

TAIWAN

With an area of 36.000 km square and a population of 19.5 million, Taiwan has few mineral resources and insufficient arable land compared with its population. After the Second World War when Chiang Kai-Shek withdrew to Taiwan, Taiwan benefited from American aid which supported its IS program.

In the early 1960s Taiwan adopted an outward-oriented EP strategy for development as the IS strategy ran into difficulties due to the limitations of small domestic market. The EP strategy in Taiwan involved providing export incentives and liberalizing imports in order to remove discrimination against exports from the economic system.

Between 1965 and 1975 Taiwan experienced a real GDP growth of 10.6 % ; no deterioration of income distribution; and improvement in literacy and life expectancy higher than most other developing countries. There were increases in real manufacturing earnings of 15 % a year from 1960 to 1979 ; and unemployment at less than 2 % since 1970 (Wade 1988 , 30).

According to Balassa, in Taiwan growth has been accompanied with EQUITY. Taiwan had one of the most equitable distribution of income among LDCs following the land reform of the late 1940s and 1950s which further improved after the adoption of an outward-oriented development strategy (Balassa 1991, 96).

Since the late 1960s this transformation occurred without balance of payments problems, rapid inflation and without high levels of foreign borrowing. According to Wade, this is not a case of easy natural resource exploitation but of labor-intensive manufacturing. In 1973 the share of manufacturing in GDP was 36 %, which is high even by the standards of industrialized countries. With a small domestic market, a large part of the manufactured production has been exported (Wade 1988,30).

Government Policies :

Many leaders doubted that Taiwan's light industries could become internationally competitive while adopting the EP strategy. Moreover, the EP strategy challenged the interests of the military who wanted to develop heavy industries, and of bureaucrats who were forced to yield much of their direct power over the economy (Clark 1989, 174).

The Republic of China (R.O.C.), thus, adopted several policies in the late 1950s and early 1960s aiming at promoting exports, domestic investment and industrialization. This new policy package provided a variety of incentives for exporting, such as : a) more realistic exchange rates (the dual exchange rate was abolished, the currency was depreciated), b) cheap credit and rebates on imported components and raw materials, c) tax reform and decreased regulation encouraging private investment/enterprise and foreign investment, d) liberalized trade system for import of industrial components, and e) reduction in tariffs and other import restrictions (Clark 1989, 175).

In addition to the above mantioned incentives, a large package of selective fiscal incentives for both domestic and foreign investors was established. On the other hand, the industrial parks established by the government provided infrastructural facilities and enabled investors to rent rather than to buy land and buildings (Wade 1988, 34).

Thus, between 1966 and 1976, the number of manufacturing firms increased by 150 % in Taiwan and the industrial production rose by 18 % a year over the 1963-73 period (Clark 1989 175).

Apart from the industrial policies, the government's educational efforts also contributed to the industrial development of Taiwan by enhancing the skill level of the labor force. In 1940 Taiwan's literacy rate was % 21. After the Second World War, illiteracy was eradicated and secondary school enrollment rate became 88 % (Balassa 1991, 104).

Reforms on the financial sector in the 1960s also contributed to economic growth and development. The reform involved setting high interest rates with a view to evening out the demand for and the supply of funds. This policy had a favorable influence on savings as well as on the allocation of savings among alternative investment.

Economic Growth :

In 1963, Taiwan's per capita income was lower than Brazil's and it was less than one third of that of Chile and Argentina. By 1988, however, Taiwan surpassed all these countries by a considerable margin [see Table 1.1]. Per capita income growth averaged 6.8 % in the 1963-87 period and 6.1 % a year between 1981 and 1987 [see Table 4.1].

The stimulus for the economic growth was provided by exports which increased 17.4 % a year between 1963 and 1987. As a result the share of export goods and services reached 60.7 % of the GDP in 1987 compared with 17.8 % in 1963 (World Bank). The economic growth was concentrated in the manufacturing sector.

Investment :

In the early part of the period between 1963 and 1973, domestic investment increased very rapidly by 17.4 % a year. However, after 1981, investment increased very little and the share of investment in GDP fell to 20 % in 1987 [see Table 4.2]. Savings that originate in the private sector financed the investment.

Foreign Aid :

Some scholars attribute Taiwan's success to foreign aid (Jacoby 1966, 45). However, during the 1950s foreign aid in Taiwan accounted for 5-7 % of GNP and financed a substantial proportion of imports (Balassa 1991, 104). During 1960s the effects of foreign aid declined. Overall direct foreign investment never contributed more

TAIWAN

Table 4.1

Economic performance indicators of Taiwan (percent)

Growth rates	1963-73	1973-81	1981-7	1963-87
GDP	11.1	8.0	7.6	9.2
Population	2.8	2.0	1.4	2.2
GDP per caita	8.1	5.9	6.1	6.8
Investment	17.4	9.6	1.7	10.7
Manufac.production	18.6	9.3	9.1	13.1
Agricul.production	3.8	1.4	1.3	2.4
Exports	25.5	10.4	13.9	17.4
Imports	21.4	9.4	10.1	14.4

Source : World Bank, World Development Report, 1987,1988.

Table 4.2

Savings and investment ratios of Taiwan (percent of GDP)

	1973	1975	1977	1979
Private savings	-	28.4	25.9	32.7
Domestic savings	34.6	27.3	33.3	34.5
Foreign savings	-5.3	3.3	-4.9	-1.1
Domestic investment	29.3	30.6	28.4	33.3
	1981	**1983**	**1985**	**1987**
Private savings	32.6	33.1	32.3	38.5
Domestic savings	32.4	32.0	32.3	38.8
Foreign savings	-2.1	-9.0	-14.5	-19.2
Domestic investment	30.3	23.0	17.9	19.6

Source : World Bank, World Development Report, 1987.

than 10 % of total manufacturing investment. Because of the uncertain political and economic status of the island, foreign investment did not begin to flow into Taiwan until early 1960s. By that time domestic industrialization was well underway and the denationalization and foreign domination had became difficult to achieve. In addition , the regime with its memories of foreign enclaves was quite sensitive to the need of controlling the MNCs (Clark 1989, 185). Nevertheless, MNCs made a major contribution to the upgrading of some industries such as microelectronics and in the marketing of Taiwan's exports.

Use of The Comparative Advantage :

The fact that the labor-intensive industries displayed the fastest growth implies that Taiwan had been able to find a place in the global economy based on its comparative advantage based on low-cost labor. However, despite this general emphasis on low-cost production, in the 1960s small and medium industries became more capital intensive as entrepreneurs upgraded their production techniques.

In addition, during the EP boom of 1963-73, the state exercised its considerable power actively to promote its chosen pattern of expansion which included development of heavy and chemical industries as well as the export sector (Wade 1988, 45). Here, the aim was to change Taiwan's comparative advantage in the anticipation of changing market conditions , and thus to permit a steadily more differentiated range of export products.

SOUTH KOREA

South Korea with a population of 42 million and an area of 98.000 km square, has a mountainous terrain unsuitable for agriculture (Balassa 1991, 46). In the late 1950s and early 1960s South Korean industrialization first emphasized Import Substitution. But policymakers changed the strategy as they realized the limits imposed by the small market size and the lack of natural resources (Tuna 1989, 32).

Following the election of Chung Hee Park in 1964, major policy changes were undertaken as a part of an export-oriented growth strategy. Reforms included unrestricted access to intermediate and capital goods imports, a uniform exchange rate, tax exemptions for exporters, reduced prices on inputs and access to credit for investment.

As a result exports rose to 45 % of the GDP in 1987 from that of 3 % of GDP in 1960. Investment also increased from 11 % of GDP in 1960 to 30 % of GDP in 1987 [see Tables 1.1, 5.1 and 5.2].

Government Policies :

Reforms of 1964 thus involved devaluation, unification of exchange rates, import liberalization, and increased incentives for exports. In 1965, these incentives were extended to indirect exports and exporters were also given increased credit preferences.

SOUTH KOREA

Table 5.1

Economic performance indicators of South Korea (percent)

Growth rates	1973-63	1973-81	1981-7	1963-87
GDP	9.3	7.8	8.9	8.7
Population	2.4	1.6	1.4	1.9
GDP per capita	6.8	6.1	7.4	6.7
Investment	14.4	11.2	10.2	12.3
Manufac.production	19.8	13.0	11.5	15.4
Agricul.production	4.1	2.3	2.4	3.1
Exports	33.6	14.3	13.8	21.8
Imports	18.8	12.2	9.9	14.3

Source : World Bank, World Development Report, 1987.

Table 5.2

Savings and investment ratios of South Korea (Percent of GDP)

	1973	1975	1977	1979	1980
Private savings	22.2	20.4	29.0	29.8	25.5
Domestic savings	21.7	18.5	27.2	28.1	23.3
Foreign savings	2.7	8.5	-0.2	7.2	7.8
Domestic investment	24.6	27.0	27.0	35.3	31.1

Source : World Bank, World Development Report, 1987.

Apart from the price incentives, the government sponsored Korea Trade Promotion Association (KOTRA) was founded in 1964 to promote Korean exports and to carry out market research abroad (Balassa 1991, 48).

Adoption of the EP strategy was accompanied by the reform of financial system. Interest rates were raised to increase financial savings. In the subsequent years as policy changes occurred in favor of capital intensive industries producing intermediate goods and heavy machinery, these industries were given priority in the allocation of domestic credit.

Until 1966 Korean policy discouraged foreign investment and borrowing. But as a result of decreased aid flows, the government reversed its stance and began to encourage private inflows, which were still carefully controlled.

In all these efforts the export drive was central. President Park chaired joint meetings of government officials and businessmen each month, in which export performance was reviewed industry by industry (Krueger 1987, 190). In addition, the systematic nature of the Korean government's reforms and its commitment to the EP strategy provided the necessary assurance to exporters to take risks associated with exporting (Turner 1982, 19).

During the oil crisis of 1973-74 Korea modified its strategy and policies. The real exchange rate was adjusted promptly together with adjustments in the domestic tax rates to offset the impact on low-income groups (Krueger 1987, 192).

Assassination of President Park led to further policy changes in 1980. The consequent Fifth Five Year Plan and Sixth Five Year Plan (1987-91) contributed to the process of import liberalization together with financial liberalization measures such as denationalization of commercial banks and abolition of credit ceilings.

Education :

An important factor in Korea's ability to exploit the advantages of the EP strategy has been education. The promotion of technology was given priority. Several institutions has been established to train scientists, engineers and to conduct research. With the introduction of compulsory education after the war, there occurred considerable expansion in secondary and higher education. While in 1965 35 % of population was enrolled in the secondary school, by 1985 this figure reached to 95 % (Balassa 1991, 55).

Government-Business Relationship :

The government-business relationship in South Korea also contributed greatly to economic growth and development. The government together with large private enterprises constituted an internal organization, named QUASI-INTERNAL ORGANIZATION (Lee 1992, 187). This organization not only helped in effectively allocating resources and credit but also made it possible for the government to implement its developmental policies effectively. For example, enterprises would be favored with preferential loans as long as they achieved the export targets assigned by the government.

Another distinguishing characteristic of the Korean industry has been the importance of conglomerates, the CHAEBOL. The largest fifty-five firms account for more than one-third of industrial output (Balassa 1991, 49). Industrial concentration was helpful in providing the economies of scale in production and in foreign sales as well as name recognition abroad. In addition, the comparatively small number of conglomerates made it easier for the government to impose its will on firms.

Economic Growth :

The governmental policies applied under the EP strategy led to rapid economic growth in Korea. Between 1963 and 1988, per capita incomes increased fivefold reaching $ 2849 per head [see Table 1.1]. As a result Korea now ranks among the higher middle-income countries.

Between 1963 and 1973 GDP increased at a rate of 9.3 % , 8.2 % between 1973-81 and 8.9 % between 1981-87 [see Table 5.1] Economic growth was concentrated in the manufacturing sector and was promoted by the rapid expansion of exports and investment supported by domestic savings [see Tables 5.2]

TOWARD AN EXPLANATION :

After adopting the EP strategy and implementing outward-looking development policies accordingly, the East Asian NICs (Hong Kong, Singapore, Taiwan and South Korea) have reached high economic growth levels and have continued to be the most dynamic exporters of manufactures. These four countries and the way they implemented the EP strategy provide a good example for understanding how a trade policy can lead a country towards economic growth. Here, the questions to be asked are : Why were the NICs able to export manufactured goods in large volumes and to achieve remarkably high growth rates while other countries who also adopted the same trade strategy could not ? Will other LDCs who adopt the same trade strategy also become important exporters of manufactures in the world trade as they begin to industrialize ?

One explanatory view is that the industrialization process is a historical spread in which the NICs are a part of the changing world economic structure parallel to the shifts in the international division of labor. Therefore, the number of NICs are expected to increase as industrialized countries vacate intermediate sectors in industrial production and advanced developing countries move into these sectors. In turn, advanced developing countries would vacate more basic industrial sectors in which the next tier of developing countries have a relative advantage (Tuna 1989, 30).

According to authors such as Vogel and Balassa, however, the success and the emergence of NICs result from a process of concentration of industrial capacity and special circumstances in certain countries that make high-volume , dynamic expansion of countries possible. In other words, the NICs have been successful under the EP strategy due to the coming together of several special factors together with an industrial capacity. What supports this view is the fact that only few LDCs have been as successful in exporting manufactures on a significant scale after adopting the EP strategy. Indeed certain factors common to these four countries might have been influential in their success with the EP strategy (Balassa 1991, Vogel 1991).

a) Physical and Geographical Characteristics :

The nature of their physical characteristics, geographical location, and history of the NICs require that they engage in trade in manufactures as there appears to be little economic alternative. They lack in natural resources ; their arable land provides little food supply ; and the size of their domestic markets tends to be inadequate to serve as the initial base for industrialization. Therefore, their existence depends on their ability to earn foreign exchange by exporting goods and services to the regional and world markets (Geiger and Geiger 1973, 8).

In addition, the financial and the distributional skills related with their historical entrepot functions (in the case of Hong Kong and Singapore) and their colonial experience and new skilled labor force (in the case of Taiwan and South Korea) made the NICs alert to the developments in the world economy. This facilitated their transition to manufacturing centers focused on export markets through skilled and holistic implementation of the EP strategy.

b) Political Survival :

For all four NICs political survival was closely tied to economic development. While Singapore is a predominantly Chinese city-state floating in the sea of Malays, Hong Kong is "a borrowed place on borrowed time " always aware of the weight of China so close in hand (Shibusawa 1992, 67). Similarly, Taiwan is ever conscious of the "threat" from mainland China while South Korea is another part-country which has never felt any real affinity with its Northern neighbour, China.

Thus, the nearby external threat which was perceived as real led to a sense of competition and a consensus that development was essential.

c) Population :

All four NICs are densely populated and poorly endowed with natural resources. As a result, they have to rely not only on imported raw materials but also on making the best use of their human resources through education in order to achieve an efficient and well qualified labor force.

d) Confucian Heritage :

Because all four of these societies share a Confucian heritage, intellectuals who admire the East Asian tradition may find appealing the notion that the key to success lies in Confucianism. Many of these intellectuals might also be influenced by the intriguing parallel between the Protestant ethic that supported Western capitalism and the Confucian ethic that helped to breed East Asian industrialization (Vogel 1991, 83).

However, many countries have achieved industrial transformation without Confucianism and many others are on the way to do so. Therefore, there exist inadequate evidence to believe that Confucian tradition has played a key role in the NICs' economic success.

Furthermore, the heartland of Confucianism has not yet achieved industrial transformation. If Confucianism alone explains why countries modernize, why should the Confucian motherland lag behind ? In addition, in East Asia industrialization prospered in areas far from the centers of traditional Confucian orthodoxy where trade and commerce were most highly developed (Vogel 1991, 84).

Therefore, although these points do not discredit arguments about the merits of Confucianism, they require us to consideration to other factors.

e) US Aid :

Although foreign aid should not be considered as the sole source of success in a country's industrialization and economic growth, in most cases foreign financial aid benefits a country's development efforts greatly. East

Asian nations received aid from the US and from the industrial organizations which gave them extensive opportunities for contact with knowledgable foreigners. These were mostly Americans who became tutors not only in modern technology and management, but also in broader aspects of industrial society. According to Vogel, from this respect through appropriate advice and training Americans were perhaps even more crucial than the financial, military, and technical aid (Vogel 1991, 85).

Throughout the Cold War, since East Asian countries were in the front line of the battle against Communism, Americans made a high level of commitment to East Asia and offered technical advice and assistance in almost every sphere of life especially to Taiwan and South Korea. Singapore and Hong Kong received less direct US aid, but benefited from the stimulus their economies received in offering services to the allied troops during the Korean and Vietnam wars.

However, by the end of the 1960s US aid declined substantially and the leaders of NICs became further convinced that to defend themselves, both economically and militarily, they had to acquire a strong industrial base.

f) Labor Force :

A new labor force, eager to work and improve its skills to meet the needs of the industry is another factor that helped in the NICs success with the EP strategy. By the time industrialization began each of these countries had a large dislocated population from North Korea, China, Malaysia, and Singapore that was anxious to find a new basis for economic livelihood. Being an uprooted elite group, these people provided a coherent core of creative leadership during industrialization.

In addition, the internal migration from rural to urban areas as a result of mechanization in agriculture further increased the number of workers eager to work and develop skills and careers.

g) The Japanese Model :

All of the four NICs shared a substantial heritage, geographical closeness and a history of commercial relations with Japan. While South Korea and Taiwan had the broadest base for understanding Japan due to the length of their Japanese occupation, Hong Kong and Singapore had been headquarters of Japanese troops and experienced a forced intimate contact with Japan.

When they began to industrialize, the NICs had available the Japanese model and Japanese technology and investment. The NICs carefully examined the Japanese model and how its labor-intensive industries' exports provided Japan with foreign exchange to buy new equipment and upgrade technology. The NICs also saw the crucial role of the Japanese government in guiding the industrial and economic changes.

In a sense, Japan has acted as a mentor to the four NICs - it has been either the first or the second large source of imports and of investment for all the NICs (Shibusawa 1991, 68). It has also become, the main supplier to the NICs of intermediate components for consumer and communication products destined for the US.

h) The Role of the Government :

The role of the government remains a controversial factor, but in at least three of the NICs concrete economic performance became the hallmark of political legitimacy and national progress. Apart from Hong Kong where the government pursues a policy of "positive non-interventionism" and acts as a facilitator, the government played a strong role in the planning and implementation of the development policies (Shibusawa 1991, 68).

Governments of the NICs have been very active in the implementation of the EP strategy and during industrialization, not only through a commitment to development planning but also through close relations with industry.

All NICs are market economies, in the sense that the initiative rests mainly with the enterprise and profit remains the enterprise's main motive. However, in NICs the state tries to get things done by influencing the market, by shifting the composition of what is profitable, rather than by direct regulation or production. The means of production are mostly privately owned and profits are mostly privately appropriated. However, the market rationality in the NICs is constrained by the priorities of industrialization. Industrialization per se has been the main aim, not considerations of maximising profitability based on current comparative advantage (White 1988, 6). For this purpose governments have intervened aggresively in parts of the market to bring about specific allocative effects.

The role of the state has thus been predominant in all of the NICs. In each case, the impact of the governmental policies extended far beyond economic policy to include ideological mobilisation, pervasive and political controls. Each state has sought to draw a clear line between international and domestic economies and to define and implement national economic priorities through different forms of strategic planning (White 1988, 24).

i) Commitment to Public Policy :

Another distinguishing feature of the four NICs is that they all made a historical shift in public policy at a critical point in time to an export-oriented strategy which made manufactured exports the focus of the economic policy and development strategy (Tuna 1989, 34). What makes this shift in public policy so important in the case of NICs is their commitment to the export-oriented growth which entails a holistic and internally consistent shift in the entire range of relevant economic policies. According to Turner :

> " It is this commitment and the integrated use of various policy instruments to implement it that has enabled these countries to become significant exporters of manufactures on a

global scale. There are numerous examples of countries maintaining realistic exchange rates without sufficient incentives on either the import or export side to achieve high export growth (Kruger 1978, 212). There are also examples of countries maintaining liberalized trade and payments regimes without sufficient export incentives to yield significant results (Krueger 1978, 283). But there are very few countries which have been able to implement an export-oriented groeth strategy holistically and with consistency among the salient policy instruments," (Turner 1982, 21).

j) **Political Stability :**

An important condition for the success of the EP strategy is that the shift in trade strategy is seen to be permanent, providing certainty and stability in order to elicit a sizable response from the investors and exporters. This ability to provide assurances derives from the capacity to sustain the policy over the long run, which is a characteristic of authoritarian rather than democratic regimes.

Authoritarian regimes have a greater possibility of achieving both the integration of various elements of policy into a coherent strategy and the implementation of the policy over the long run (Turner 1982, 22). According to Don Keesing, governments that have succeeded in instituting coherent, pro-trade policies are not exactly repression-free, anti authoritarian regimes. Don Keesing continues : "Having labor leaders in jail as well as achieving enough political stability to take a long run view seem to be a very common accompaniments to the creation of protrade policies " (Keesing 1979, 152).

In East Asia, the success of both capitalist and socialist models of development depends heavily on a degree of political authorianism, at least during the early stages (White 1978, 24). Therefore, the political stability coming from the authoritarian regime might be another factor which contributed to the holistic implementation of the EP policy and the success in export production and economic growth in the NICs.

Thus, the NIC success with the EP strategy seems to be the result of the unusual convergence of a variety of factors and circumstances. Geographical and physical location ; the need for political survival under percieved "threats" ; populational and traditional characteristics ; US aid and the Japanese model have all been influencial factors in forming the infrastructure and the derive required for industrialization under EP strategy. However, more essential elements necessary for a successful export drive tend to be a) the commitment by the government to an export-oriented strategy based on manufactures, b) holistic, rather than partial implementation of the strategy, involving consistent exchange-rate, import and export policies, and 3) political stability to ensure the implementation of these policies over a sustained period of time (Tuna 1989, 36).

Can the East Asian Model be Generalized ?

Can all LDCs following the EP strategy industrialize and achieve the export and growth levels of the NICs ? Or do they face a special phenomenon which only a few countries in any given period in history will be able to undertake and sustain ?

William Cline (1984) and Gustav Ranis (1985) provide opposing answers to these questions. Cline examines wheter the EAST Asian NIC model can be generalized without violating plausible constraints on the absorptive capacity of industrial country markets. He asks what would happen to protection if all LDCs tried to emulate the East Asian NICs and reach the same intensity of manufactured exports. Cline argues that while individual developing countries might thrive by doing so, in the aggregate they would face sharp protective resistance to the flow of exports.

His analysis based on cross country patterns relating manufactured exports to GDP as a function of development level (per capita income) and country size (population), indicate that generalization of the East Asian model across all LDCs would make LDC exports vulnerable to probable protective action in the face of flood of exports. Therefore, Cline suggests that the development planners adopting the EP strategy must consider the probable capacity of the international market to absorb the resulting increases in exports from their own and like-minded developing countries.

According to Cline, NICs took the advantage of the open economy strategy before the export field became crowded with competition from the other LDCs and when the world economy was in a phase of prolonge bouyancy (Cline 1984, 214).

On the other hand, according to Ranis, Cline misrepresents the nature of the choice facing policy makers and academics who urge the emulation of the Gang of Four model (Ranis 1985, 544). He argues that for different LDCs with different initial conditions (eg. endowment, size, poulation) and starting at different positions, emulation does not mean "exporting as much as possible" but, rather, moving in the direction of liberalization. He argues that Cline does not pay attention to the differential time phased arrival of exports on world markets or to the diversified nature of exports from LDCs (Ranis 1985, 544). In addition, Ranis points out to Cline's neglect of the fact that manufactured exports can be directed to the markets in the South as well as in the North.

Thus, there exist varying views on the question of generalization of the East Asian model, that is the implementation of EP in the NICs. Comparing the implementation of the EP in another country who could not reach similarly high growth rates might be beneficial in better understanding the NIC experience.

The next chapter will examine Turkey's experience with the EP policy based on an outward-oriented development strategy. The aim of the next chapter is to answer the question of why Turkey could not reach the growth rates and economic success similar to that of NICs although it also adopted the Export Promotion strategy.

III.EXPORT PROMOTION IN PRACTICE: THE TURKISH PERFORMANCE

This chapter is an effort to examine the EP practice in Turkey in order to better understand the NIC phonemenon and relate the case of Turkey to the EP theory. Will an outward-oriented strategy work in Turkey? How succesful were the economic reforms of the 1980's ? In what ways does the Turkish performance under the EP strategy differ from the NICs' performance ? And what are the reasons for the relatively lower economic growth and success rates of the Turkish economy when compared with the NICs ?

To answer these questions satisfactorily, this chapter includes a brief historical, economic background of Turkey together with the examination of the economic reforms of the 1980s, and the statistical indicators of economic performance. The chapter will examine the implementation of the EP strategy in Turkey and will question the reasons for its relatively lower rate of success when compared with other countries who also employed the same strategy.

Within an area of 780.576 km square, Turkey has a population of 55.9 million. After the Turkish War of Liberation against the imperialist forces Kemal Atatürk proclaimed the Turkish Republic in October 1923. The semi-colonial status of the Ottoman Empire and the recent threat to the very existence of the state made the leaders very sensitive to issues of political and economic independence.

The misfortunes of the past, caused by domestic autocracy combined with corruption and inefficiency, and by growing foreign interference and dependency, were behind Atatürk's determination to draw a definite line between the imperial past and a modern republican, independent future (Z.Y. Hershlag 1988, ix). From the very start it was made quite clear that the national leadership was determined to secure free use of the national resources of the country without tolerating any interference from outside.

The official economic policy, etatism, which meant state-sponsored and directed economic development in the Turkish context, was established mostly on an industrial base, expressing itself in terms of self-reliance and self-sufficiency. Whatever new centers of economic activity were created, as well as those that already existed, were to be in national hands (Tuna 1988, 135).

Turkey's isolationist economic policies during the 1930s including measures of control of foreign trade and foreign exchange transactions were a reaction against the experiences of the previous century. High tariff barriers, economic autarky, and a drive for heavy industry and national economic self-sufficiency, were all the instruments which nationalist bureaucrats believed to be the only way of preventing the placement of public utilities under the control of foreign debt administration - as was the case before the falling of the Ottoman Empire (Barchard 1985, 11).

M.M.Finefrock points out that in 1933 Turkey became the very first of what we now call "Third World" nations to undertake a planned economy. He argues that the adoptation of statism, which called for the artificial stimulation of the economy through government intervention, and which was chosen largely as a result of the crisis in 1929 , accounts for the dramatic economic upturn in Turkey until the eve of World War II (Finefrock 1981, 375).

On the other hand, O.Mehmet points to the negative impact of etatism : "Far from being an experiment in populist egalitarianism, etatism served as a model of state capitalism managed primarily for the benefit of a privileged elite controlling the state apparatus. By the 1970s Turkey had acquired one of the most unequal patterns of income distribution in the world" (Mehmet 1983, 53). According to this view, the socio-economic inequalities, the roots of the crisis of the 1970s, were actually implemented in the Turkey of the 1930s, when economic and political elitism emerged as the devepolment strategy.

After World War II, during the Democratic Party period of the 1950s, the bourgeoisie was allowed a free hand and a class of capitalists in agriculture was born. The aid received by the government and the increased earnings from exports (due to good weather and the boom created by the Korean War) benefited the agricultural sector most. In 1953, this boom in agriculture came to an end and production began to stagnate. Turkey's brief "export economy" led to greater trade deficits as primary good prices declined world-wide and export earnings followed suit (Tuna 1988, 140).

In an effort to find new sources of foreign exchange earnings, the DP regime drew up a foreign investment law favorable to foreign capital. The DP government also established Turkey as a loyal outpost of the West on the borders of the Soviet Union. Not only did Turkey join NATO (1952), but it also furnished the US with a string of military bases and dispatched a military contingent to fight in Korea.

Aid and foreign borrowing remained the only source that could be tapped to continue financing the imports necessary for economic growth. At first, the Marshall Aid and other foreign grants helped, but after 1955, when aid was less readily forthcoming, the government increasingly turned to covering the current account deficit with short-term borrowing. Between 1950-57, Turkey received 55.8 million in loans from the World Bank (Berberoğlu 1079, 262).

Continuous borrowing meant an ever-increasing external debt. Whereas in 1939 Turkey's total foreign debt was 187 million TL, it had reached 5 billion TL by 1950 (Berberoğlu 1975, 262). Turkey's membership in NATO and CENTO military pacts posed an additional burden on the national budget.

With the general stagnation of the economy and the enormous military expenditure (% 34 of the national budget in 1950s), the burden of the debt, the continuous trade deficit, and the resultant balance of payments crisis, as well as the adoptation of austerity measures imposed by the IMF, Turkey entered a period of deep economic crisis. The DP rule was brought to an end by the military in 1960, after it began to ban democratic freedoms when faced with social unrest. However, the strong economic and military ties established between Turkey and the West during their rule have continued to this day.

In contrast to the 1950s, the 1960s were good years for most countries exporting agricultural and mineral raw materials. In the mid 1960s Turkish workers began to emmigrate to European countries and sent home remittances which were almost equal to exports. During the late 1960s and early 1970s GNP rose at annual rates of 7 % , 8 % , and even 10 % making for substantial real growth per capita as well (Weiker 1981, 210). Although the amount of new foreign private capital during the 1960s was significantly higher than in the previous decade. assembly-type industries continued to dominate the industrial sector.

According to some authors, the increase in productivity did not benefit the large and ever-growing masses as the rich got richer (eg. Keyder 1979 ; Berberoğlu 1979). Effective reforms were never carried out in agriculture, taxation act to cure the appalling unequal distributional problem. Thus, starting with the student movements in 1968, extremist groups gradually resorted to violence. This led to another repressive military interim regime in 1971 that claimed to be restoring order and reform following Atatürk. The resisting student movement was crushed and a new course of development begun in Turkey in the 1970s.

In this period, the number of foreign firms decreased but the proportion of authorized investment which was realized increased. Average new foreign investment in 1977 was $ 67 million (Weiker 1981, 211).

In the meantime, the global recession of 1973-75, aggravated by the explosion of oil prices, drastically curtailed the demand for foreign labor in Europe. The number of Turks working abroad was reduced by 40 % (Simpson 1980, 6). Along with this sudden drop in foreign remittances, Turkey was faced with the economic problems of declining commodity markets and quintupled oil prices.

These factors brought a sharp reversal in Turkey's earlier pattern of foreign trade and payments. In 1976 the foreign trade deficit was larger than all of Turkey's foreign trade five years before. Increasingly, the payments deficits were covered by loans at high interest rates in the Euro-currency market. Inflation jumped from 14 % in 1973 to 24 % in 1974, 25 % in 1977, 80 % in 1979, and over 100 % in 1980. Foreign reserves dropped from $

1.8 billion in 1973 to $ 600 million in 1977 (Rustow and Penrose 1981, 28).

After 1978, Turkish authorities sought to reschedule the debts which had piled up. At the same time the shortage of available credit has meant that they have been forced to reduce imports substantially. In 1979 the restrictions on imports were such that industry was forced, through lack of raw materials, fuel and equipment, to run at levels far below capacity. The growth of industry had been extremely import-dependent: not only did the original machinery came from abroad, but new factories have continued to be dependent on foreign raw materials, intermediate goods and spare parts.

The counterpart of the external trading problems was stagflation at home. Growth in GNP was 0.2 in 1979. The effect on the domestic market of rising dollar import prices was compounded by successive devaluations (Tuna 1988, 146).

Particularly after 1975, Turkey experienced an increased level of political instability and terrorist violence verging on civil war. Finally, the military leaders took power on September 12, 1980. The military rule endorsed a free market recovery plan drawn up by Turgut Özal who was later elected prime minister.

The start of the 1980s found the Turkish economy in a state of crisis. Inflation had burgeoned from below 20 % a year in the first half of the 1970s to over 50 % in 1978 and surpassed 100.% in 1980 (Krueger 1992, 2).

The inflation problem had repercussions in other areas of the economy. The main root of the problem was a fiscal deficit. Governments used instruments of policy to mask the effects of inflation while failing to attack the root of the problem. The effects of inflation showed itself in the area of exchange rate policy, trade policy, and the pricing policies of public sector enterprises. The exchange rate was artificially held down and the incentive to export was drastically reduced as a consequence. Foreign reserves declined and import substitution policies were reinforced to prevent this drain. Artificially low pricing of the public enterprises not only introduced further noneconomic elements into Turkey's price structure ; it also contributed to the massive fiscal deficits, thus, further fueling inflation.

REFORMS AND THE ECONOMIC POLICIES OF THE 1980s :

Turkish change of economic policy from 1980 onwards appears to be a major break with previous practice. Prime Minister Turgut Özal's economic philosophy was shaped by his experience in the Turkish bureaucracy and in the private sector during the mid 1970s. His reforms came in two principal stages : the original stabilization package of 24 January 1980 and the changes introduced in December 1983 after his return to office as prime minister.

On January 24, 1980, Turkish government announced a major economic reform program. The reform program included policy changes in the exchange rate, increases in the prices of goods and services produced by State Economic Enterprises (SEEs), inaguration of a stabilization program backed by the IMF, and liberalization in trade and payments. It was also announced that the role of the government in economy would be diminished and that there would be more reliance on the private sector for economic growth. The 1980 reform package had as its chief features :

a) **Realistic exchange-rate policies** : The exchange-rate was subjected to a large devaluation with promise of continuing exchange flexibility in the future. The Turkish Lira has been adjusted against the dollar, and since May 1981 the rate has been announced on a daily basis.

The intent of this move was to enable the economy to achieve balance of payments equilibrium under a much liberal international trade regime and to stimulate exports under a higher real exchange rate.

b) **Real interest rates** : From July 1980 and onwards depositors have been given a net return over inflation. Equally, the previously artificially low rates to borrowers have been sharply raised.

c) **Tight control** over the money supply and credit within the context of agreements with the IMF.

d) The ending of most state-sector **price subsidies** and of price control boards.

e) **Tax Reform** : Tax reform was iniated in 1980, culminating in the introduction of Value Added Tax (VAT) in 1985.

f) The encouragement of **foreign investment** and the introduction of new legislation and the creation of a unified body to handle foreign investment.

In 1983 further changes were introduced by Özal when he returned as the Prime minister :

a) **The foreign currency regime** was liberalized and there was considerable progress towards the convertibility of the Lira. Turks were allowed to buy and hold foreign currency, and in the late 1984 the government announced that it would accept payment for some of its exports in Turkish Lira.

b) **Export** incentives were made more selective and subsidies were reduced.

c) A partial **liberalization** of **imports** both of raw materials and of some consumer goods, including foods. Elimination of duties on imports used in producing export goods.

d) Administrative **reorganization of the SEEs**.

e) A new **Five-Year Plan** was announced for 1985-89.

REFORM POLICIES :

1- THE FIRST PHASE (1980-1983) :

The initial program of the 1980-83 period had three major components : exchange-rate policy, internal price policy, and the stabilization policy.

The Exchange-rate Policy :

Turkish Lira was devalued and it was announced that the exchange-rate policy would become more flexible with more frequent devaluations to make exports more attractive. The earlier multiple exchange-rate system was unified considerably.

Banks authorized to hold foreign exchange were authorized to retain upto 80 % of receipts, using them to finance imports of oil, petroleum products, fertilizers, and raw materials. In addition, allowances for travellers were increased and trade in gold was liberalized.

Incentives for exporters were introduced or enchanced and exporters were permitted to retain $ 10.000 or 5 % of their receipts whichever was greater (Krueger 1992, 18). While all duties on imports used in export production were eliminated , administrative procedures relating to exports were greatly simplified.

At the same time, the import regime was also liberalized as the coverage of liberalized list was enlarged and advance deposits requirements on imports were reduced.

The Pricing Policy :

An important part of the reform program was the removal of controls over SEE prices. The intent of this move was to correct the fiscal deficit which was largely due to rising transfer payments to SEEs for their deficits.

According to the reform program, prices of the SEE outputs - except coal, fertilizers and electricity - would be freely determined and with few exceptions, government subsidies would no longer be provided.

Measures were also taken to remove control over prices of many goods and services provided by the private sector. As a result of this liberalization deficits of SEEs were greatly reduced in the first half of the 1980s (Okyar 1983, 549).

Fiscal and Monetary Policy :

In addition to reducing the deficits of the SEEs through price increases, measures were taken to make monetary and fiscal policy less expensive. These measures included the raising of interest rates and imposition of controls over public sector expenditures.

These steps were taken according to an agreement with the IMF and in turn, permitted a rescheduling of outstanding debt and the commitment of new loans by the IMF and the World Bank. On June 18, 1980, the government of Turkey and the IMF signed a three-year standby agreement for SDR 1.25 billion. Terms of the agreement are known to have included :

- ceilings on net domestic assets of the Central Bank,
- ceilings on net borrowing by the public sector,
- liberalization of imports,
- refrain from adopting multiple exchange-rate (Krueger 1992, 19).

Over the following year and a half, the government adhered fairly strictly to the ceilings agreed upon with the IMF and simultaneously, further liberalized the import regime.

2- THE SECOND PHASE (1983-) :

After the 1983 elections, Turgut Özal's government moved quickly to regain momentum of policy reforms which were focused on achieving structural changes within the economy especially with regard to import-competing and export industries.

Stabilization was forgotten as government expenditures began rising sharply and inflation accelerated.

The second phase of the government reforms included deregulation of banks, freeing of interest rates. creation of a foreign exchange market, and reduced taxes on financial transactions. In addition, increased incentives for the efficiency in the SEEs were introduced.

In December 1983 authorities announced that they intended to provide incentives more through the exchange rate and less through special export incentives. The government also intended to move toward a unified exchange-rate for all transactions.

In addition, steps were taken to increase the attractiveness of Turkey for private foreign investors. These included the easing of conditions governing the transfer of profits, the general relaxation of capital and exchange market controls.

During this period, further changes were made in the trade policy in order to encourage exports and liberalize trade. Between 1980 and 1985, depreciation continued and as a result the real cost of foreign exchange in 1985 in terms of domestic power was about twice what it had been in 1979. This itself constituted a major change in the incentive for exporting.

In 1984 "EP Decree" further enchanced the benefits granted by incentives through access to low interest credits from the newly established special funds, exemptions from some direct and indirect taxes and fees, allocation of foreign exchange up to 50 % of the total commitment, and duty free exports. Although in 1985 the GATT subsidy code was signed to phase out all subsidies on exports, by 1986 export tax rebates were reintroduced with rates of 8 % for manufactures and thereafter the number of items eligible for tax rebates were raised (Barchard 1985, 51).

In the case of imports, quantitative restrictions were removed and tariffs were reduced. This offset a considerable portion of the increased real price of foreign exchange that importers had to pay. Protection accorded to import-competing industries was thus greatly reduced.

THE RESULTS OF THE ECONOMIC REFORMS AND THE STATISTICAL INDICATORS OF THE ECONOMIC PERFORMANCE

Turkey's economic achievements in the 1980s cannot be underestimated. Its export leap in the initial years of the decade took place during the severest world recession experienced by the OECD economies in the period after the World War II.

The IMF and the World Bank were closely responsible for drawing up the country's 1979-80 stabilization plans and both institutions have presented Turkey in their publications as the prime example of how IMF stabilization policies could succeed without pitfalls associated with programmes applied in the Southern Cone countries (Toksöz 1988, 40).

According to David Barchard, Özal's reforms and his free-market and export-oriented policies have brought impressive results :

> " Özal's reforms have brought impressive results. The volume of foreign trade has risen shaply. Eports have risen from $ 2.9 bn in 1980 to $ 7.1 bn in 1985, while imports grew less swiftly from $ 7.9 bn in 1980 to $ 10.6 bn in 1985. Shortages and power cuts virtually disappeared. Capacity utilization, which was 51.2 per cent in Turkish industry in 1980, rose by 1984 to over 70 per cent. Inflation fell from three-digit levels in 1980 to 24 per cent in 1982, though it was 39 per cent in 1983, and apparently 53 per cent in 1984. Most strikingly, GNP growth was swiftly resumed : from declines of 0.4 per cent in 1979 and 1.1 per cent in 1980, GNP rose by 4.1 per cent in 1981, 4.6 per cent in 1982, 3.2 per cent in 1983 (when Özal was out of office) and an estimated 5.7 per cent in 1984," (Barchard 1985, 36).

However, Barchard does not provide any information on the social effects of Özal's economic policies and the implementation of the EP strategy in Turkey. He says, "The alleged increase in unemployment and income inequality are so far hard to measure." But he states that "opposition appears to be strongest among the fixed income groups, particularly civil servants. Fear that the austerity programmes might lead to outbreaks of violence have not been born out by events, and the law-and-order machinery set up after 1980 in any case makes disorder unlikely," (Barchard 1985, 36-37).

In order to assess the results of the economic reforms of the 1980s, it is beneficial to examine the indicators of economic performance as well as the quality of life indicators.

a) Economic Growth :

Although Turkey's economic growth in the early 1980s was better than what it had been in the late 1970s and superior to that of most developing countries in the midst of the worlwide recession, it was not until 1984 that growth rates accelerated. As can be seen in Table 6.1, real GDP growth averaged more than 5 % after 1984.

However, in recent years there have been large fluctuations in the growth rate. While in 1989 the GNP growth was 1.9 %, it jumped to 9.2 % in 1990 and again dropped to 1.3 % in the first part of 1991 displaying serious signs of economic instability (Yasadığımız Dünya 1992, 191).

Table 6.1 :

Indicators of Macroeconomic Performance, 1980-89 (percentage)

Year	Real GNP growth *	Growth of real investment	Growth of exports
1980	-1.1	-6.9	28.7
1981	4.2	1.8	61.6
1982	4.5	3.2	22.2
1983	3.3	2.9	-0.3
1984	5.9	-0.1	24.5
1985	5.1	16.8	11.6
1986	8.1	11.0	-6.3
1987	7.4	5.5	36.7
1988	3.7	-1.6	14.4
1989	1.7	-3.4	-0.3

* Real GNP at 1986 prices.

Source : Turkey. Country Studies No:9 International Center for Economic Growth. 1992. San Fransisco, ICS Press.

b) Exports :

Exports rose sharply and were more than 50 % over their corresponding 1980 level for the first half of 1981. Industrial exports rose even more rapidly and were more than double their 1979 level by 1981. By 1983, Turkish export earnings were $ 5.7 billion, compared with $ 2.9 billion in 1980 [See Table 6.1].

In the late 1970s, exports constituted only about 7 % of GNP. By 1987, the share of exports in GNP had risen to 21 %. This represented a tripling of the export share in GNP in less than 8 years. That increase was accompanied with an average annual rate of growth of export earnings (in US dollars) of 18.9 % over the 1980-88 period.

Thus, the removal of quantitative restrictions, tariff reductions, export incentives, and a more realistic real exchange rate all served to increase the relative and absolute attractiveness of exporting.

All major categories of exports grew, although exports of industrial goods grew much more rapidly than did the exports of agricultural commodities, and mineral products exports grew very little except for a short-lived burst in the late 1980s. While agricultural commodities constituted 57 % of exports in 1975 and 1980s, their share of total exports had fallen to 18 % in 1989. Conversely, the share of industrial goods in total exports rose rapidly, reaching 78 % by 1989 [See Table 6.2].

Table 6.2 :

Export Earnings by Major Coomodity Categories 1975-1989
(millions of U.S. dollars)

	Agriculture and livestock *	Mineral products*	Manufactures
1975	793 (57)	106 (8)	338
1980	1,672 (57)	191 (7)	800
1981	2,219 (47)	193 (4)	1,172
1982	2,141 (37)	175 (3)	2,517
1983	1,881 (33)	189 (3)	2,756
1984	1,749 (25)	240 (3)	3,928
1985	1,719 (22)	244 (3)	4,976
1986	1,886 (25)	247 (3)	4,479
1987	1,853 (18)	272 (3)	6,879
1988	2,341 (20)	377 (3)	7,728
1989	2,127 (18)	413 (4)	7,915

* Numbers in parentheses indicate percentages of total exports.

Source : Turkey Country Studies No: 9 , International Center For Economic Growth. San Fransisco, ICS Press.

In the case of manufactured exports, all categories grew rapidly. In 1980, textiles constituted about half of manufactured exports. Most categories of manufactured exports grew at average annual rates in excess of 20 % [See Table 6.3].

The OECD performed an extensive analysis of manufactured exports for a number of countries, classifying exports into five broad categories : scale-intensive industries, labor-intensive industries, resource-intensive industries, differentiated goods, and science-based industries. (OECD 1987).

When analyzed on this basis, according to the OECD report, labor-intensive industries constituted 46 % of total exports in 1987. Exports based on raw materials extracted in Turkey accounted for 17 %. Iron and steel and industrial chemicals were the only sizable industries classified as scale-intensive. Even there, a great deal of iron and steel exports consisted of re-exported processed scrap metal - itself a labor-intensive process [See Table 6.3].

Thus, more than three quarters of Turkish exports in 1987 were either directly labor-intensive or were based on the availability of natural resources. Clearly, the quality and the availability of Turkey's labor force played a significant role in the development of export industries, although other factors were involved as well.

In the first years of the export drive, there had been some skepticism about whether exporting out of

Table 6.3 :

Classification of Exports by Nature of Commodity, 1987

Categorization of Exportable Commodity	Percentage of total manufacturing exports
Resource-intensive industries	17.2
Food, beverages, and tobacco	11.1
Leather, except footwear and apparel	0.3
Wood, wood and wood products except furniture	0.4
Pulp, paper, and paperboard	0.5
Petroleum products	2.9
Other nonmetallic mineral products	0.5
Nonferrous metal basic industries	1.5
Labor-intensive industries	45.9
Textiles	15.6
Apparel	26.9
Footwear	0.3
Furniture and fixtures, except primary metal	0.2
Scrap metal	2.4
Other manufacturing	0.5
Scale-intensive industries	23.4
Paper, paper products, printing, and publishing	0.6
Industrial chemicals	8.0
Rubber products	0.8
Plastic products	0.4
Pottery, china, and earthware	0.4
Glass and glass products	1.7
Iron and steel basic industries	9.7
Transport equipment	1.8
Differentiated goods	12.0
Engines and turbines	0.1
Agricultural machinery and equipment	0.3
Metal and woodworking machinery	0.9
Special industrial machinery	4.5
Machinery and equipment	2.5
Other electrical machinery, appliances and supplies	3.6
Photographic and optical goods and watches	0.1
Science-based industries	1.7
Other chemical products	1.5
Office, and computing machinery	0.0

Source : OECD, Economic Surveys (Paris: OECD, 1989/90), p. 39

excess capacity would continue once domestic demand recovered. That question was decisively answered in the latter half of the decade when economic growth accelerated and exports continued to grow.

The fact that a very large fraction of increased exports, especially in the early 1980s, were destined for Iraq and Iran was another source of concern. That concern too, was put to rest when these countries reduced their imports from Turkey, but overall Turkish exports continued growing.

Lastly, one of the main concerns was the claims of "Faked Invoicing" or "Fictious Exports." The magnitude of export incentives clearly provided an inducement for exporters to overstate the value of their foreign exchange earnings and export volumes. Unofficial reports indicate that around 15 % of the 1987 export revenues of $ 10.4 bn may be accounted for in this way (Toksöz 1988, 50).

c) Investment :

The fall in investments in 1979 and in 1980 was replaced by a growth of 3.5 % in fixed investments. As a result industrial output in real terms rose by 7.2 %, GNP by 4.2 %, and GNP per capita by 1.9 % . All this was brought about mainly through fuller utilization of installed capacity (Hiç 1985, 332).

In the early 1980s, observers had been concerned that investment was stagnant, even when output growth accelerated [see Table 6.1]. Real investment was quite sluggish until 1984, but accelerated thereafter. Thus, in early years of the reform program, growth came mainly from the fuller utilization of existing capacity; it was not until the mid-1980s that the reoriented trade regime was consisted with an increase in real investment.

In 1984, improved economic atmosphere had a beneficial impact on direct foreign investments. The total estimated volume of direct foreign investments amounted to $ 1.250 million by the end of 1985 (Tusiad 1986, 186) . Most foreign investments concentrated on manufacturing. Additional investments have taken place in tourism and on a growing scale in banking [see Table 6.4].

On the other hand, gross national savings rose to 18.1 % of GNP in 1981 from a low of 15.6 % in 1980 and then declined to 16 % in 1983 after the 1982 financial crisis. By 1985 savings had reached 18 % of GNP once again and further rose to 20 % .

d) Balance of Payments :

The most striking feature of an examination of balance of payments is the simultaneous increase in both exports and imports. The hallmark of Turkish reforms in the 1980s was an opening up of the economy, and both exports and imports constituted a lager share of economic activity. The trade deficit was in the range of $ 2.7 billion by 1982, and thereafter the deficit was in the range of $ 2.8 to $ 3.1 billion every subsequent year.

The change in the balance of payments was

Table 6.4 :

Foreign Investment

	1988	1989	1990
Foreign Investment (mn$)	354	663	622
Sector Limits Allocated for Foreign Investment (million $)			
Agriculture	27,3	9,8	65,1
Mining	5,2	10,6	45,5
Manufacturing	484,1	901,0	1143,1
Services	307,8	549,0	530,6
Total	824,5	1470,5	1784,3
Country Limits Allocated for Foreign Investment (million $)			
EC	383,8	907,1	1248,6
Other OECD Countries	325,4	383,9	359,8
Muslim Countries	51,0	104,5	55,0
Other	64,3	75,0	120,9

Source : State Planning Organization, 1991.

accomplished despite two adverse shifts. Interest payments to service the foreign debt rose from $ 1.1 billion in 1980 to $ 2.8 billion in 1988. The demand for Turkish workers in Western Europe fell in response to the recession, and consequently, workers' remittances declined during the decade from a peak of $ 2.4 billion in 1981 (Krueger 1992, 33).

d) Foreign Debt :

Although considerable progress was made during 1980-83 on the balance of payments front, certain developments in trade did not fare well. Total export receipts stagnated after the peak reached in the previous year, and there was further deterioration in external terms of trade in 1983.

Furthermore, despite continued growth in international reserves during 1983, even the peak reached in November was equivalent to less than three months of 1983 imports (Nas and Odekon 1988, 20).

Thus, although the current account deficit diminished after 1981, financing for the external deficit was still required from 1980 to 1987. That financing neccessarily originated primarily from new borrowing. Some observers have suggested that Turkey's successful macroeconomic growth performance of the 1980s was attributable to the increased imports that were financed partly by accumulation of additional debt (eg. Collins 1989, 14).

As indicated earlier, Turkish debt was rescheduled as a part of the 1980 reform package. From a level of $ 19 billion in 1980, Turkish debt rose by less than $ 1 billion by the end of 1982 [see Table 6.5]. Even in 1984, it grew by only $ 1.3 billion. Thereafter, however, it rose by $ 6.8 billion in 1986, $ 8 billion in 1987, and then declined by $ 2.1 billion in 1988.

Thus, Turkey received new loans during the 1980s, although its magnitude appears to be no larger, relative to the size of the Turkish economy, than money involuntarily lent to other heavily indebted countries during the same period. In any event, lending to Turkey was voluntary in large part because of successful export performance.

e) Tax Reform :

Despite being one of the most important reforms of the post-1980 era, tax reform has had limited effects so far; growth in tax revenues has lagged behind the growth in output.

Tax reform was initiated in 1980, culminating in the introduction of Value Added Tax (VAT) in 1985. The reforms aimed to shift the tax burden away from the relatively small minority of the population, consisting of employees and corporations, on to the majority of the population, namely those who work on the land, the self-employed, and small business owners.

Tax on real estate were also increased significantly and litigation procedures tightened up to reduce tax avoidance. A system of rebates on VAT paid by certain

Table 6.5 :

Turkish Debt, 1980-88

	Magnitude of debt (billions of U.S. dollars)			
	Total debt	Long term	Short term	IMF
1980	19.0	15.5	2.5	1.1
1981	19.2	15.7	2.3	1.3
1982	19.7	16.5	1.8	1.5
1983	20.3	16.4	2.3	1.6
1984	21.6	16.9	3.2	1.4
1985	26.0	19.9	4.8	1.3
1986	32.8	24.8	6.9	1.1
1987	40.8	31.3	8.7	0.8
1988	38.7	30.7	7.7	0.3

Note : Numbers may not add to totals because of rounding.

Source : Turkey. Country Studies No: 9, International Institute for Economic Growth. 1992 San Fransisco, ICS Press.

categories of people also served to monitor small business incomes and forced the introduction of cash tills to give receipts (Toksöz 1988, 42).

According to a recent OECD study (1987), in 1981, following the start of the tax reform total revenues rose to 19 % and then declined again. In 1984 the share fell to 14.6 % as the government increased tax rebates and reduced a number of indirect taxes to stimulate exports and investment (OECD 1987).

f) **Inflation** :

When inflation reached 110 % in 1980, the first measures taken by the then deputy minister, Turgut Özal, were to abolish the Price Control Committee set up in 1978, adjust the exchange-rate to realistic levels, and free controls on vital industrial imports. These steps eased supply bottlenecks which were contributing to inflation. The control of wage demands brought about restrictions on trade union activities was the next important factor (Toksöz 1988, 48).

In its initial phase, the major success of the program was to bring about a reduction in inflation. By early 1981, it was estimated that inflation had dropped to 35 %, contrasted with its high in 1980 of 110 % ; it remained at about that rate through 1982 [see Table 6.6]. In 1983 inflation accelerated as government expenditures increased before the election and as the new economic team reversed earlier restrictive policies.

In the second phase of the reform program, inflation

Table 6.6 :

Indicators of Macroeceonomic Performance, 1980-89 (percentage)

	Increase in consumer price index	Increase in GNP deflator
1980	110	104
1981	37	42
1982	31	28
1983	31	28
1984	48	50
1985	45	44
1986	35	31
1987	39	38
1988	75	66
1989	70	67

SOURCE : Turkey. Country Studies No: 9. International Center for Economic Growth. 1992. San Fransisco, ICS Press.

has been persistently at high rates. In large part, this is because of persistently large government expenditures which were directed toward the development of infrastructure. Government expenditures were 25 % of GNP in 1980, fell to a low of 18.9 % in 1985, and rose to the 21-22 % range for the following three years. Moreover, the fiscal deficit rose from 1.7 % of GNP in 1981 to 3 % in 1983 and 5.3 % in 1984. Thereafter, it was once again sharply reduced to 2.8 % in 1985, but rose to 3.6 and 4.5 % in the following two years. In 1988, fiscal deficit stood at 3.4 % of GNP (Krueger 1992, 38).

The reasons for this high deficit were numerous : interest payments on domestic and foreign debt and increased government expenditures before each election can be listed as two of them. Thus, these rises and falls in government expenditure and fiscal deficit influence rate of inflation which constitutes a major threat to the efforts in orienting the Turkish economy toward the international economy.

Resolution of the inflation problem is not only a political necessity for Turkey but also essential for achieving a more stable real-exchange rate. While until 1989 the exchange-rate was managed so that the real value of the Turkish Lira did not appreciate in response to the changes in the domestic price level, in 1989, the nominal exchange-rate changed at approximately half the rate of inflation. This, in turn, contributed to the slowdown of the rate of growth of exports.

g) State Economic Enterprises (SEEs) :

The deficits of the State Economic Enterprises (SEEs) have been the major burdens of the public budget since the 1930s. Within the framework of the stabilisation programme the law of 20 May 1983 made a basic distinction between the profit-oriented SEEs, called the State Economic Corporations (SECs), which were given the freedom of determining their own prices and accounts, and public-service-oriented Public Economic Agencies (PEAs), that is utility companies, monopoly goods and basic services.

Since the end of 1983, the emphasis has been on decentralization of state involvement and intervention in management and financing, aimed at promoting self-financing of current costs, growth of the participation of SEEs' own savings and capital in new investments, and compliance with the market mechanism instead of reliance on administration, government protection and subsidies (Tüsiad 1990, 11). In addition, after the election of October 1991, the new government announced its plans towards the privatisation of SEEs in order to increase efficiency and reduce the public burden of SEEs.

However, although certain improvement in the SEE accounts has been registered since 1981, the SEE demand for public funds and domestic and foreign borrowing has still been substantial.

h) Population and Employment :

The rapid economic development of Turkey has brought in its wake rapid social changes, the most important of which is the rural to urban shift of the population. Three quarters of Turkey's rural population lived in sub-districts and villages at the end of the Second World War [see Table 6.7]. By 1965 this had fallen to two thirds and by 1985 to 47 % .

Between 1945 and 1965 the urban population (those living in province and district centers) increased at an average rate of 43 % a year. Between 1965 and 1985 it increased at 47 % a year. Turkish administrators have been unable to keep up with the employment and social requirements of this influx of people into the cities.

The population as a whole grew at around 2.4 % a year in 1965-85, and at 2.1 % in 1990 [see Table 6.8]. This rate of growth has added an average of 400.000 new entrants into the economically active group (twelve years and older) since 1970, yielding an increase of 2.3 % a year. According to the official employment statistics, the potential civilian labor force (those 15 years and older, both employed and seeking employment) rose at an avarage rate of 1.6 % a year in the 15 years to 1985. Yet civilian employment (not including people engaged in defense related activities) grew at an average of only 1 % a year over the same period (Toksöz 1988, 64).

While the official figures show unemployment rising from 12.5 % in 1970 to 16.7 % in 1985, or nearly to 3 mn people, nonofficial estimates put the ratio higher at around 20 % [see Table 6.9].

Table 6.7 :

Population by city and village, 1927-85

	Total population ('000)	Province and district centres (% of total)	Sub-districts and villages (% of total)
Annual avarage growth			
1927-45	1.8	2.0	1.7
1945-65	2.6	4.3	1.9
1965-85	2.4	4.7	0.7

Source : State Planning Organization, 1987.

Table 6.8 :

Demography, Culture, Military

		1970	1980	1990
Demography				
Population	million	35,3	44,4	55,9
Density	/km square	45,2	56,9	71,6
Growth/yr	%	2,5	2,3	2,1
Birth rate		5,3	4,3	3,7
Infant mortality	%	133,6	111,0	69,0
Life expectancy	yr	55,9	61,7	65,1
Urban population	%	38,4	43,8	61,3
Culture				
Illiterate	%	48,7	34,4	19,3
Physicians	/thousand	0,45	0,7	0,8
Secondary Sch.	%	42,6	46,9	66,0
College	%	6,0	6,1	11,3
Televisions	%	11,0	79,0	172
Published books		5 854	3 396	6 685
Military				
Navy	thousand	37,5	45	55
Air Force	thousand	50	52	67,4
Land Force	thousand	390	470	525

Source : Yaşadığımız Dünya, 1992.

Table 6.9 :

Labor market trends, 1970-1984 ('000)

	1970	1975	1980	1984
Population	35,605	40,348	44,737	50,664
Economically active	15,119	17,348	19,219	21,219
(% of total pop.)	42.5	43.1	43.0	42.0
Participation ratios*	71.8	68.5	63.1	60.0
Labor force: supply	14,375	15,916	17,063	18,016
Labor force: demand	13,682	14,696	15,231	15,706
Non-agricultural labor surplus	692	1,220	1,832	2,310
Disguised unemployment in agriculture	1,100	900	700	665
Total unemployment	1,792	2,120	2,532	2,935
Unemployment (%)	12.5	13.3	14.5	16.5
Civilian labor supply by sex (15 +)				
male	8,911	10,421	11,363	12,313
female	5,464	5,495	5,700	5,703

* Employed and unemployed persons aged 15 years and over as a proportion of total 15 + age group.

Source : State Planning Organization, 1987.

According to Krueger and Aktan, as a result of rapid growth of investment and output utilities and transport, and due to government's emphasis on developing infrastructure to support private industry, industrial employment grew considerably faster than manufacturing employment, rising from 1.996.000,- persons employed in industry in 1981 to 2.271.000,- employed in 1985, and to 2.561.000,- in 1989. The authors conclude, however, that given the rapid growth of the Turkish labor force, even this growth of employment opportunities was disappointing. Consequently, this leads to concerns about the impact of the policy reform on income distribution in Turkey (Krueger 1992, 38).

i) **Education and Literacy :**

Education has been a particularly glaring problem in rural areas, although the education system in the country as a whole needs urgent attention. Of the total population aged six years and over 32.5 % were still illiterate in 1980, while another 16.5 % could read but had no formal educational diploma. In 1980 2.2 % of the total population were graduates of a university or a higher education institute. These statistics reflect yet again the heavy rural bias in the country. Among the total economically active population 89 % of those classified as illiterate were in agriculture, forestry, and fishing (State Institute of Statistics) [see Table 6.8].

Literacy among women, a telling indicator of social development is a particularly acute problem in Turkey. 45 % of Turkish women were illiterate in 1980, compared with 20 % of men (men are given a second chance to learn to read and write in the army). Despite the recovery in the economy, women's position in the labor market has not improved in recent years. A breakdown of civilian labor by sex shows that, in 1970, women made up 38 % . This has fallen to 33 % by 1980 and 31 % by 1984 . High unemployment has caused women to drop out of the labor market although the overall the overall participation ratio has also fallen. While the number of employed poeple and unemployed people aged 15 and over who were seeking employment accounted for 72 % of the total 15 and over age group in 1970, by 1984 it was only 60 % (Toksöz 1988, 68).

j) **Income Distribution** :

Neoclassical economics suggests that the income distribution of a country with abundant labor and low wage rates is expected to improve as the country adopts an outward-oriented trade strategy. Better allocation of resources, according to this view, not only improves the distribution of income but it also increases the income per capita. This is because, when low cost labor is used in the production of exports, wages increase. At the same time, due to lower demand the cost of capital decreases. Thus, a country gains in both ways when it adopts an outward-oriented trade strategy based on its comparative advantage.

However, in Turkey such a development has not occured. The high inflation prevalent in the Turkish economy since 1978 and the monetarist economic policies used to counter inflation together with the international economic recession in this period, all contributed to the worsening of income distribution in Turkey.

Between 1974-77, the income distribution became increasingly unequal and from 1978 and onwards the inequality in incomes reached unacceptable levels. Since the period 1974-77 is characterized by a sharp increase in income, there occured no absolute impoverishment in this period. However, during the period from 1978 to 1985, the per capita income has declined and the income distribution has been biased unfavorably against the low and fixed income groups and has led to impoverishment (Kazgan 1985, 459). When it is considered that the lower and fixed income groups constitute the 80-85 % of the total population , the results of the economic reforms of the 1980s do not seem that successful.

Today, the main problems, particularly affecting the low-income groups, still exist : high unemployment, high inflation, a scarcity of local capital for long-term investment and inequality of income. The comparative statistics illustrate the country's relative backwardness:

> "Whereas the net annual increase in population in Britain and West Germany is 0.7 percent, and around 7 percent in Greece, Spain and Portugal, the Turkish population is growing by 2.3 percent a year. This is despite a very high infant mortality rate in

> Turkey: 131 per thousand in 1982, as compared with 16 per thousand in Greece, 26 per thousand in Portugal, and around 11.7 in Britain and West Germany.
> ....Literacy statistics are disputed, but the 1980 census suggests that approximately a third of the population aged eleven and older is still illeterate. Health statistics present a similar contrast. The startling disparity in infant mortality already mentioned has long puzzled demographers, since it is well above what is generally expected for a country of Turkey's socio-economic level. Life expectancy, too, is lower : about 54 years for males in Turkey, compared with 65 in Portugal, 70 in Greece, Spain and West Germany, and 68 in Britain. Figures for doctors per thousand of the population are also well below other OECD countries (Barchard 1985, 103)."

TOWARD AN EXPLANATION :

After adopting the EP strategy and implementing outward-oriented development policies, Turkey has reached higher economic growth and export levels. During the first few years, the apparent success of the program was a welcome break from the unfavorable results of the earlier programs. The foreign debt situation improved significantly, and a superior export performance became a leading indicator of progress, as well as a hopeful sign of what more could be accomplished.

As the first few years come to an end, however, the initial wave of optimism on the potential success of the reforms, has faded at least for some. Trade and budget deficits remain, and the problems of high inflation and unemployment continue to involve critical "macrochoices" (Nas 1988, 1).

Here the question to be asked is : why could Turkey not reach the growth and economic success levels similar to that of NICs although it also adopted the EP strategy and outward-oriented trade policy ? Some answers are suggested below :

a) Physical and Geographical Characteristics :

Unlike the NICs, Turkey is rich in natural resources; its large volume of arable land provides plenty of food supply; and due to the large population, the size of the domestic market constitutes an adequate initial base for industrialisation.

Turkey is relatively land-abundant and is favored with a variety of climatic conditions, including : (1) the Mediterranean Coast, where cotton, citrus, tree crops, and fresh fruit and vegetables vie for rich land ; (2) the Anatolian Plateau, colder and with somewhat poorer soil, which probably has a comparative advantage in livestock and, to a lesser extent, wheat and other grains ; and (3) the Black Sea region, where tobacco and hazelnuts are major crops.

In addition to land, the country has large deposits of chrome, copper, coal, iron ore, and a variety of other minerals. However, there is little oil, and the country imports its entire supply.

Therefore Turkey's existence does not depend exclusively on its ability to earn foreign exchange through export of goods and services. Consequently, Turkey employed a broadly restrictionist trade strategy until the 1980s.

On the other hand, similar to NICs, Turkey's strategic geographical location is suitable to engage in trade. However, in Turkey this strategic location has mostly been used in determining her international stance. Turkey has been a member of NATO and has supported the largest army of any European NATO country. Because of proximity as well as a commonality of religion and heritage, there also exist strong links to the Middle East.

Thus, the availability of resources, a large domestic market, and abundant arable land, did not necessitate an engagement in the manufactured export trade in Turkey for survival as was the case in the NICs. Even after 1980s, it is difficult to convey the full extent of the transformation of the economy and of attitudes toward exporting in Turkey.

b) Political Survival :

Although after the War of Independence and the establishment of the Turkish Republic governments emphasized industrial development based on etatism with the fear of foreign economic dominance, Turkey's political survival was not closely tied to economic development as was the case with NICs.

Turkish proximity to the former Soviet Union was not the same as the NICs' proximity to threats from N.Korea, China, and Malaysia. Being a member of NATO Turkey received military as well as economic aid from the United States and Western European countries throughout the Cold War. At the same time, Turkish officials never doubted the strength of their large military in case of an unexpected invasion.

c) **Population :**

Although Turkey has a large population of 55.9 millions, it is also a land-abundant and resource rich country. With 66 % high school enrollment and only 11.3 % college enrollment rates in 1990, it is clear that Turkey's labor force lacks the necessary education and skills.

In the initial years of export drive, the availability of labor ready to work in less pleasant occupations and under harsh conditions with low wages has been a comparative advantage factor for Turkey. However, the presence of unskilled labor force may constitute difficulties in efforts to produce manufactured exports with more efficiency and qreater quality.

Thus, absence of skilled labor and large population creates a problem in Turkey's development efforts based on the expectations of competing in international export markets.

e) US Aid :

Throughout the Cold War, since Turkey, a member of NATO, was in close proximity with the former Soviet Union, Americans made a commitment to Turkey and offered military and economic aid.

At the end of the Second World War, US aid under the Point Four Program and then the Marshall Plan was directed largely toward the development of infrastructure and agriculture. The government established very high support prices for agricultural commodities, and in addition, a sizable fraction of aid was allocated for the conversion of pastureland and forests in the Anatolian Plateau into wheat-growing areas (Krueger 1978,45).

Although Marshall Plan aided greately in the development of the agricultural base, after the Plan, US aid consisted mostly of military financing. While in NICs US provided trade concessions, technical advice and assistance in almost every sphere of life, in Turkey, American commitment was limited to military considerations.

The IMF and the World Bank did support Turkey's economic liberalization efforts in the 1980s. However, their assistance was often limited to rescheduling of debts and advices of stricter austerity measures.

f) The Role of the Government :

On January 24, 1980, when the Turkish government announced a major economic reform program, it was also announced that the role of the government in the economy would be diminished, that there would be more reliance on the private sector for economic growth.

During the period between 1980 and 1983 the economic reforms were intended to strengthen market forces and competition by opening up the Turkish economy to the rest of the world. Simultaneously, state controls over economic activity would be reduced.

Similarly, when Turgut Özal became prime minister after the 1983 elections, the new government moved quickly to regain momentum of policy reforms which were focused almost entirely on achieving structural changes within the economy, especially with regard to the role of import-competing and export industries and the role of private and public sectors.

However, despite the determinism of Turgut Özal, the liberalization of the economy and the reduction of government controls and/or the limitation of the government's role to a planner and a facilitator of developments has not been fullfilled. The role of the government and of the SEEs in the economy remain considerable.

Turgut Özal's government played a strong role in the planning and implementation of the development policies. Measures such as the incentives, tax rebates, and infrastructure investments shifted the composition of what is profitable and influenced the course of production in the market.

Similar to NICs, in Turkey too, the impact of the governmental policies extended far beyond economic policy to include political controls at least during the first phase of the reforms. This is because, the economic policies were implemented right after the military coup of 1980 with almost no objection from either the opposition groups or the businessmen.

Similarly, the economic reforms gained momentum during the 1984 import regime when the government's political support was at its peak. As a result, the military rule and the political support in 1984 have constituted one sphere of the stabilization program characterized by an apparent lack of criticism, especially from the private sector, which had been influencial in the direction taken by the economic policies and outspoken on issues like the shortages and the price of bank credits (Nas 1988, 22).

However, in the following years, especially after the October 1991 elections, the new Demirel government has been subjected to continuous criticisms by the private sector about not fulfilling their promises of reducing inflation and providing new efforts in privatisation and liberalization.

g) **Commitment to Public Policy :**

Similar to NICs, Turkey too, has made a historical shift in public policy at a point in time (in 1980) to an export-oriented strategy which made exports the focus of the economic policy and the development strategy.

However, Turkey could not display the commitment to the export-oriented growth as did the NICs. Commitment to the EP strategy entails a holistic and internally consistent shift in the entire range of relevant economic policies. In Turkey, on the other hand, neither the economic policies of export-growth nor stabilization were consistently followed and thus, the commitment to the EP strategy has been partial.

For example : between 1982, when Turgut Özal resigned the deputy premiership and 1984, after the bankruptcies that followed the 1982 financial crisis, there was a reversal of the tight money, import and interest rate liberalization policies.

Similarly, during the election years of 1986 and 1987, control over the macroeconomic aggregates were considerably relaxed for political reasons. In addition, contrary to its austerity rhetoric, the Ozal government has been on a spending spree which has been increasingly funded by foreign borrowing. Likewise, in contrast with the rhetoric, the fact that public investment continues to outstrip private investment displays that the reduction of the government's role in the economy and the serious restructuring and privatisation of the SEEs remain distant goals and further accelerates inflation (Toksöz 1988, 40).

h) Political Stability :

It was stated before that an important condition for the success of the EP strategy is that the shift in trade strategy is seen to be permanent, providing certainty and stability. This ability to provide assurances derives from the capacity to sustain policy over the long-run, and is a characteristic of authoritarian rather than democratic regimes.

While in NICs, models of development depends heavily on a degree of political stability, in Turkey the successive changes in political regimes due to military coups and elections might be another factor which contributed to the partial and unstable implementation of the EP policy. After every military coup it took a considerable period of time to bring back political stability and due to these successive changes in the political environment, implementation of the EP policy ran into difficulties.

Turkish political experience suggests that Turkey's armed forces enjoy a virtually unique position among Third World countries. The army's unusual status rests not only on the centuries-long tradition of military leadership but also on the strength, unity, and prestige of Turkey's military apparatus (Lundington and Spain 1983, 156). In 1960, 1971, and 1980 the military carried out coups with the intent of "recreating a democratic form of goverment."

Many authors attribute the initial success of the reforms of the 1980s to the military which carried out the most radical measures (eg. Barchard 1985, Toksoz 1988, Nas 1988). According to this view, the key elements of the stabilisation and liberalisation program included cuts in agricultural subsidies, wage curbs, and tax reforms, none of which could be implemented by parliamentary regimes which relied on the affected strata of population for votes. Thus, most of the radical measures of the post 1980 period were introduced in the initial years under the military rule. These policies. according to this view, were consistently put into effect before the Özal government was elected in 1983 ; the economic basis has been thereby prepared for an expansion in growth.

In his 1987 analysis of Turkish political economy, C.Keyder suggests an interesting connection between the recent Turkish experience and economic policies :

> "...Political matters were left to the military whose programme alluded broadly to the "solidary nation" formula of Kemalist times, and set out to eradicate "anarchy and terrorism". The same formula served to retrospectively condemn democratic practices of the 1970s and justify the "restricted democracy" framed in the new 1982 constitution.
> ...The elaborate nexus of state controls and distribution policies were to be dismantled through a prescription of policies that IMF experts freely dispersed. What this blueprint of instant liberalism offered (in addition to the sanctity of the market) was increasing rates of profit through lower wages, reduced social expenditure, and declining agricultural incomes. At the same time the government would subsidise exports and devalue the currency to an acceptable rate. Imports would thus be reduced to essentials basically because domestic incomes would be lowered; and exports would increase due to low wages, a devalued currency, and an export promotion policy.
> ...The new economic measures did lead to an upheaval within the manufacturing bourgeoisie. A rapid concentration and centralisation of capital took place; all but the upper ranks of the bourgeoisie were abruptly pushed into an uncertain economic environment. There were certainly protests from smaller manufacturers and merchants, especially concerning the privileges accorded to large firms, but the bourgeoisie as a whole seemed to weigh political gains against economic losses and made the choice for restricted democracy.
> ...Among workers, small commodity producers, the marginal population and the growing ranks of the unemployed, real incomes dropped precipitiously but strikes and other protest activity were banned, political parties proscribed, and unions rendered impotent. The change in income distribution reflects only part of the problem in that the social expenditures of the state also declined, with visible deterioration of public education and public health services." (Keyder 1987, 224-226).

These comments emphasize the anti-democratic aspects of the new liberalization policy providing insight to the initial success of the reform programs under the military rule and the 1982 constitution.

Thus, with the help of the military, IMF, and the 1982 constitution, during the initial years, the Özal government maintained the overall objective of the 1980s which was to clear the way for the functioning of market mechanisms. But, progress in this direction has been slow since the reforms have not been consistently followed and political considerations have undermined long-term economic goals.

CONCLUSIONS :

In the 1960s and 1970s, small countries with little domestic markets and natural resources, such as South Korea, Taiwan, Hong Kong, and Singapore, adopted the outward-oriented Export Promotion (EP) trade strategy and experienced rapid economic growth together with improved quality of life indicators. This NIC phenomenon seems to be the result of the unusual convergence of a variety of forces and circumstances. The most essential elements necessary for a successful export-drive are : (1) commitment by the government to an export-oriented strategy based on manufactures, (2) holistic rather than partial implementation of the strategy, involving consistent exchange-rate, import and export policies, and (3) political stability to ensure the implementation of these policies over a sustained period of time.

In the case of the NICs these essential public policy and political elements have converged over a period of time and led to a historic turning in the direction of the nation under the EP strategy.

On the other hand, during the period from 1973 to 1989, Turkey generally followed a moderately outward trade strategy, and under the Özal government it further liberalized its trade policy, following a strategy similar to the export-led growth model of the NICs based on Export Promotion.

Turkey, however, is different from the NICs in some important respects : (1) it does not suffer from an absence of natural resources that would compel high export growth, as was the case in South Korea, Hong Kong, Singapore, and Taiwan ; (2) Turkey has a large population composed of mostly unskilled labor unsuitable to shift into higher technology production modes as industrialisation progreses ; (3) although the Özal government made clear attempts to implement the outward-oriented EP strategy holistically, with consistent exchange-rate, import and export policies, the Turkish experience suggests that the reforms have been followed inconsistently and implemented partially ; (4) the experience of the NICs suggests that the policy also has to be pursued over a long period of time, which in their case was made possible by long-run, stable, authoritarian regimes. The Turkish political experience, however, is characterized by efforts to democratize the system after periods of military rule rather than by long-term authoritarian dictatorships. Considering the fact that Turkey is trying to adopt a democratic rather than authoritarian political system, one must take into account the possible effects of political-ideological competition that would ensue in a democratic system.

The Özal government adhered to free-market and export-oriented policies during its term in office as much as possible within the bounds of a parliamentary regime where governments tend to be heavily influenced by voters' reactions. The Demirel government which came to office in 1989 offered the kind of policies seen in

Turkey during the Özal period with less emphasis on trade liberalization and almost no success in privatisation of the SEEs or the reduction of inflation.

The opposition to the Özal government's policies and the reforms of the 1980s appears to be the strongest among the fixed-income groups. Also smaller Anatolian industrialists and traders have been understandably opposed to Özal, while larger scale industrialists in Istanbul support the reforms with an enthusiasm proportionate to their role as exporters (Barchard 1985, 37).

According to Krueger, Turkey stands out for having achieved significant economic growth in the decade of the 1980s, while many other countries were mired in stagnation. Successful trade liberalization, according to Krueger, was the principal factor for this achievement (Krueger 1992, 5).

Nas, on the other hand, criticizes the economic performance of Turkey under the new strategy. He points out that, although real depreciation of the currency and an outward EP strategy seem to have kept Turkey ahead of most LDCs in terms of economic performance, Turkey's economic stabilization policies in the 1980s have failed to curb inflation and unemployment.

Even though the deficits have been decreasing in Turkey, they are still of considerable magnitude. Turkish figures compared with others also show that price competitiveness alone does not boost exports.

Factors like quality standards and delivery schedules at times may prove as important as prices.

According to Nas, persistent inflation and unemployment, and increasing indebtedness are the early signals Turkish authorities must recognize from the former experience. Unless domestic stabilization is achieved, unless the benefits of EP are distributed and shared in an equitable manner, narrowing the current account deficit is not a meaningful achievement (Nas 1988, 39).

It will take several more years before the results of the reforms of 1980s can be evaluated. Turkey's industries, with few exceptions - notably textiles - still operate on too small a scale to make them competitive in European markets. However, in the near future parts of the motor or electronics industries can turn into viable large-scale exporters, but that depends on Turkey's success in restructuring its industries, attracting large-scale investment and transforming itself into a merchant state (Barchard 1985, 40). The more immediate and pressing objectives right now are more limited, and focus on keeping the current account under control and attaining price stability.

Turkey is a relative success story among developing nations. However, the necessary condition for achieving growth and social welfare rates present in NICs and industrialized countries, lies in alleviating any negative distributional effects that may arise from following an outward-oriented policy without the necessary preconditions.

For the export-led growth model to be successful in Turkey as it was in NICs, there must be a well-educated and skilled workforce, holistic commitment to the policy, political stability as well as favorable terms of trade for the agricultural sector so that the rural laborers, who still constitute the majority of the labor force, will benefit from the growth as well.

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